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**Not For Release in the United States**

28 July 2006

The Companies Officer  
Australian Stock Exchange Ltd.  
Exchange Plaza  
2 The Esplanade  
Perth WA 6000

Dear Sir

### **Project Capital Raising**

Fortescue Metals Group Ltd ("Fortescue") and its relevant subsidiaries involved in the Pilbara Iron Ore and Infrastructure Project have commenced an international road show in connection with an offer to raise US\$1.9 billion in debt pursuant to a preliminary offering memorandum.

The preliminary offering memorandum is being lodged with Australian Stock Exchange Limited because it contains material information of interest to equity investors. It does not constitute an offer of debt securities in Australia and is provided for information purposes only.

As advised to the market last week, Leucadia National Corporation agreed to invest US\$400 million conditional on the raising of debt capital. This provided the necessary subordinated debt and equity contribution to enable Fortescue to commence its road show presentations.

The preliminary offering memorandum provides an overview of the project, including current status of development, risk factors related to the development and operation of the project and a base case financial model including forecast financial information.

As this is a preliminary offering memorandum prepared in connection with a "book build" offer process for institutional debt investors it does not include pricing terms such as the interest rate and maturity of the debt.

The preliminary offering memorandum is being provided to potential institutional debt investors during a series of international presentations being held over the next couple of weeks.

The New Force in Iron Ore

The debt capital raising as described in the attached preliminary offering memorandum is not underwritten and the ability to raise the required funds will depend on the level of demand from the capital market for this particular credit. While Fortescue expects it will receive sufficient support for the debt offering it can give no assurance whether the debt offering will be successfully concluded and if concluded what the final terms will be, including aggregate principal amount, interest rate and maturity.

Yours sincerely

**Fortescue Metals Group Ltd**

**Rod Campbell**

Company Secretary

*This announcement has been prepared for use in Australia and may not be released in the United States. This announcement does not constitute an offer of securities for sale in the United States. Securities may not be offered or sold in the United States without registration under the US Securities Act of 1933 or an exemption from registration.*

SUBJECT TO COMPLETION, DATED JULY 26, 2006

PRELIMINARY OFFERING MEMORANDUM

CONFIDENTIAL



US\$1,900,000,000

# FMG Finance Pty Ltd

(ACN 118 887 835)

## Senior Secured Notes

*% Senior Secured Fixed Rate Notes due*

*Senior Secured Floating Rate Notes due*

FMG Finance Pty Ltd ("FMG Finance"), an indirect wholly-owned subsidiary of Fortescue Metals Group Ltd ("Fortescue"), is offering US\$ principal amount of % Senior Secured Notes due (the "Fixed Rate Notes") and US\$ principal amount of Senior Secured Floating Rate Notes due (the "Floating Rate Notes" and, together with the Fixed Rate Notes, the "Senior Secured Notes").

The Fixed Rate Notes will bear interest at the rate of % per annum, accruing from , 2006. The Floating Rate Notes will bear interest at three-month LIBOR plus % per annum, accruing from , 2006.

FMG Finance will pay interest on the Fixed Rate Notes on and of each year, beginning on , and interest on the Floating Rate Notes on , and of each year, beginning on . The Fixed Rate Notes will mature on and the Floating Rate Notes will mature on .

The Senior Secured Notes will be senior secured obligations of FMG Finance, and will rank *pari passu* in right of payment with all existing and future senior indebtedness of FMG Finance. FMG Chichester Pty Ltd, Pilbara Mining Alliance Pty Ltd, and The Pilbara Infrastructure Pty Ltd, all of which are direct and indirect subsidiaries of Fortescue (the "Project Guarantors"), will guarantee the Senior Secured Notes on a senior secured basis. Fortescue will also guarantee the Senior Secured Notes on a senior basis until Project Completion (as defined in the Indenture governing the Senior Secured Notes). The obligations of FMG Finance, Fortescue and the Project Guarantors under the Senior Secured Notes will be secured by, among other security documents, fixed and floating charges over the assets of FMG Finance and the project-related assets of the Project Guarantors, a charge over the bank accounts in which proceeds of the Senior Secured Notes will be deposited, share mortgages over all of the shares in the capital of the Project Guarantors, a featherweight charge over all of the assets and undertakings of Fortescue and mortgages of the real property leasehold rights of the Project and the Project mining tenements. FMG Finance, Fortescue and each Project Guarantor are organized under the laws of the Commonwealth of Australia ("Australia").

FMG Finance may redeem all or part of the Fixed Rate Notes on or after and all or part of the Floating Rate Notes on or after , at the redemption prices set forth in this offering memorandum.

Application has been made to list the Senior Secured Notes on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this offering memorandum. Admission of the Senior Secured Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the FMG Finance, the guarantors or the Senior Secured Notes. The Senior Secured Notes are expected to be eligible for trading in the Private Offerings, Resales, and Trading through Automatic Linkages Market commonly referred to as the PORTAL Market.

### Investing in the Senior Secured Notes involves risks. See "Risk Factors" beginning on page 22.

The Senior Secured Notes have not been registered under the United States Securities Act of 1933 (the "Securities Act") or any state securities laws. Accordingly, the Senior Secured Notes are being offered and sold only to qualified institutional buyers in accordance with Rule 144A under the Securities Act and outside the United States in accordance with Regulation S under the Securities Act. Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of the Senior Secured Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfers of the Senior Secured Notes, see "Notice to Investors."

Price for the Fixed Rate Notes: % plus accrued interest, if any, from , 2006.  
Price for the Floating Rate Notes: % plus accrued interest, if any, from , 2006.

The initial purchaser expects to deliver the Senior Secured Notes on or about , 2006.

Sole Book Runner and Lead Manager

Citigroup

, 2006

The information in this offering memorandum is not complete and may be changed.



**You should rely only on the information contained in this offering memorandum. FMG Finance and Fortescue have not authorized anyone to provide you with different information. FMG Finance and Fortescue are not, and the initial purchaser is not, making an offer of the Senior Secured Notes in any country or state jurisdiction where the offer is not permitted. You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the front of this offering memorandum.**

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The offering memorandum has been prepared by FMG Finance solely for use in connection with the proposed Offering of the Senior Secured Notes described in the offering memorandum. The offering memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire securities. Distribution of the offering memorandum to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorized, and any disclosure of any of its contents, without prior written consent, is prohibited. Each prospective investor, by accepting delivery of the offering memorandum, agrees to the foregoing and to make no photocopies of the offering memorandum or any documents referred to in the offering memorandum.

Notwithstanding anything in the offering memorandum to the contrary, each prospective investor (and each employee, representative or other agent of the prospective investor) may disclose to any and all persons, without limitation of any kind, the U.S. tax treatment and U.S. tax structure of any offering and all materials of any kind (including opinions or other tax analyses) that are provided to the prospective investor relating to such U.S. tax treatment and U.S. tax structure, other than any information for which nondisclosure is reasonably necessary in order to comply with applicable securities laws.

The initial purchaser makes no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in the offering memorandum. Nothing contained in the offering memorandum is, or shall be relied upon as, a promise or representation by the initial purchaser as to the past or future. FMG Finance and Fortescue have furnished the information contained in the offering memorandum. The initial purchaser has not independently verified any of the information contained herein (financial, legal or otherwise) and assumes no responsibility for the accuracy or completeness of such information.

Neither the United States Securities and Exchange Commission (the “SEC”), any state securities commission nor any other regulatory authority, has approved or disapproved the Senior Secured Notes nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of the offering memorandum. Any representation to the contrary is a criminal offense.

The Senior Secured Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and the applicable state securities laws pursuant to registration or exemption therefrom. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Please refer to the sections in the offering memorandum entitled “Plan of Distribution” and “Notice to Investors.”

In making an investment decision, prospective investors must rely on their own examination of the company and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in the offering memorandum as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the securities under applicable legal investment or similar laws or regulations.

In this offering memorandum, FMG Finance and Fortescue rely on and refer to information and statistics regarding the iron ore mining industry, including information in the independent assessment of the iron ore market and Fortescue iron ore product (the "CRU Report") provided by CRU Strategies Ltd ("CRU"), in addition to other market data from independent experts, independent industry publications and other publicly available information. Although FMG Finance and Fortescue believe that these sources are reliable, FMG Finance and Fortescue have not independently verified and do not guarantee the accuracy and completeness of this information.

The offering memorandum contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. Copies of documents referred to herein will be made available to prospective investors upon request to FMG Finance or the initial purchaser.

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

#### **CERTAIN DEFINITIONS**

As used in this offering memorandum, the term "Project Group" refers to Fortescue's subsidiaries FMG Finance Pty Ltd ("FMG Finance"), FMG Chichester Pty Ltd ("Chichester"), The Pilbara Infrastructure Pty Ltd ("TPI") and Pilbara Mining Alliance Pty Ltd ("PMA").

The term "Project Guarantors" refers to Chichester, TPI and PMA.

Fortescue's fiscal year ends on June 30 of each year. In this offering memorandum, "fiscal 2006" means the twelve-month period ended June 30, 2006 and other fiscal years are referred to in a corresponding manner. The term "2006 financial statements" means Fortescue's audited consolidated financial statements for fiscal 2006 and fiscal 2005 that are included in this offering memorandum commencing at page F-18.

The term "Base Case Model" refers to the unaudited financial projections relating to the Project Group's anticipated financial results from operations for the Project as set forth in this offering memorandum under the caption "Base Case Model."

See Appendix D for certain mining and other defined terms.

The following table sets out the conversion from metric measures into imperial equivalents:

1 Tonne	=	2,204.6224 Pounds
1 Tonne	=	1.1023 Tons (short)
1 Hectare	=	2.4711 Acres
1 Kilometer	=	0.6214 Miles
1 Meter	=	3.2808 Feet

## **ENFORCEMENT OF CIVIL LIABILITIES**

Each of Fortescue and each member of the Project Group are corporations organized under the laws of Australia. Most of the directors and officers of Fortescue and each member of the Project Group and certain of the experts named in this offering memorandum reside outside the United States, and substantially all of the assets of such persons and Fortescue and each member of the Project Group are located outside the United States. As a result, it may not be possible for investors to effect service of process for a lawsuit within the United States upon such persons, including with respect to matters arising under the Securities Act, or to enforce against any of them, judgments in non-U.S. courts obtained in courts of the United States predicated upon, among other things, the civil liability provisions of the federal securities laws of the United States. FMG Finance and Fortescue have been advised by their Australian legal counsel, Clayton Utz, that there is doubt as to the enforceability, in original actions in Australian courts, of liabilities predicated solely on the U.S. federal securities laws and as to the enforceability, in Australian courts, of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of the United States federal securities laws.

Each of Fortescue, FMG Finance and each Project Guarantor has appointed Corporation Service Company, New York, New York, as its agent for service of process in the United States in respect of any civil suit or action brought against or involving it in a United States federal or state court located in the Borough of Manhattan of the City of New York arising out of, related to or concerning the Offering.

## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements in this offering memorandum, including, but not limited to, certain statements set forth under the captions “Risk Factors”, “Base Case Model”, “Management’s Discussion and Analysis” and “Business”, are based on the beliefs of management of FMG Finance and Fortescue as well as assumptions made by, and information currently available to, that management. The statements included in this offering memorandum regarding future financial performance and results and the other statements that are not historical facts including, without limitation, statements relating to the ore reserves and resources of the Pilbara Iron Ore and Infrastructure Project (the “Project”), the Project Group’s expectations of future performance of the Project and control estimates, schedules and other construction cost estimates and predictions relating to the Project, are forward-looking statements. The words “may”, “could”, “believes”, “intends”, “expects”, “anticipates”, “projects”, “estimates”, “predicts”, “plan”, “assume”, “contingency”, “allowance” and similar expressions are also intended to identify forward-looking statements.

The forward-looking statements included in this offering memorandum are subject to risks and uncertainties that could cause actual results to differ materially from those which may be forecast and projected. Under no circumstances should the inclusion of such information in this offering memorandum be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions by the initial purchaser, the Project Group or any other person. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this offering memorandum. These forward-



looking statements are subject to various factors that could cause the actual results of FMG Finance or Fortescue to differ materially from the results expressed or anticipated in these statements. These factors include, without limitation:

- failure to complete and commission the mine facilities, rail infrastructure and port in the time frame and within estimated costs as currently planned;
- variations in global demand and price for iron ore, particularly in the Asian markets targeted by the Project, or increases in global iron ore supply;
- failure to recover the resource and reserve estimates of the Project;
- inability to obtain additional financing, if required, on commercially suitable terms;
- unavailability of key personnel, supplies, equipment, contractors and other necessary components of the Project;
- inability to obtain the necessary permits, licenses or approvals from government authorities;
- unforeseen geological, physical or meteorological conditions, natural disasters or cyclones;
- changes in the regulatory environment, industrial disputes, labor shortages, political and other factors;
- global and regional recession, reduced economic activity or market disruption due to world and regional events; and
- the factors identified in the section entitled “Risk Factors.”

These and other factors could cause actual results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, FMG Finance or Fortescue, or any other party associated with the Project.

The assumptions and estimates underlying the Base Case Model are inherently uncertain and, although considered reasonable by FMG Finance, the Project Guarantors and Fortescue as of the date of this offering memorandum, are subject to regulatory, business and economic risks and uncertainties that could cause actual results to differ materially from those contained in the Base Case Model. Investors should be aware that the timing of events and the magnitude of their impact might differ from that assumed in preparing the Base Case Model, and that this may have a material positive or negative effect on the financial performance of the Project, FMG Finance, the Project Guarantors or Fortescue and on the ability of FMG Finance, the Project Guarantors or Fortescue to make payments to security holders. There can be no assurance that the Base Case Model is indicative of the future performance of the Project, FMG Finance or the Project Guarantors or that actual results will not differ materially from those presented in the Base Case Model. Inclusion of the Base Case Model in this offering memorandum should not be regarded as a representation by any person that the results contained in the Base Case Model will be achieved.

Subject to the continuous disclosure requirements of the SGX-ST Listing Rules and any obligation under the *Australian Corporations Act 2001* (Cth) (the “Corporations Act”) or the Singapore Securities and Futures Act to issue a supplementary or replacement offering memorandum, none of FMG Finance, the Project Guarantors or Fortescue intends to publish Base Case Model financial information in the future.

#### **CAUTIONARY NOTE REGARDING MARKET INDUSTRY DATA AND RESERVES AND RESOURCES**

Unless otherwise indicated, all sources for industry data and statistics are estimates or forecasts contained in or derived from internal or industry sources believed by Fortescue and the Project Group to be reliable. Market data used throughout this offering memorandum was obtained from independent experts, independent industry publications and other publicly available information. Although the Project Group believes that these sources are

reliable, Fortescue and the Project Group have not independently verified and do not guarantee the accuracy and completeness of this information.

Market data and statistics are inherently predictive and speculative and are not necessarily reflective of actual market conditions. Such statistics are based on market research, which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what types of products and transactions should be included in the relevant market. In addition, the value of comparisons of statistics for different markets is limited by many factors, including that (i) the markets are defined differently, (ii) the underlying information was gathered by different methods and (iii) different assumptions were applied in compiling the data. Accordingly, the market statistics included in this offering memorandum should be viewed with caution and no representation or warranty is given by any person as to their accuracy.

Mineral resources and ore reserves referred to in this offering memorandum are reported in accordance with the Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves 2004 Edition (“JORC Code”), which has been incorporated into the Australian Stock Exchange Listing Rules. When reserves and resources are reported under the JORC Code, the ore reserve figures (tonnage and grade) are included within the mineral resource figures (tonnage and grade).

Information contained in this offering memorandum relating to estimates of resources from the Christmas Creek and Cloud Break tenements (the “Mine Plan Tenements”) was prepared by Snowden Mining Industry Consultants (“Snowden”) in February 2006 and March 2006, respectively. Information relating to probable reserves and proved reserves was prepared by Fortescue’s Competent Person, Mr. James Williams, in December 2005 and May 2006, respectively. Snowden has reviewed the Project’s estimates of its reserves. For more information on this review, a report prepared by Snowden, dated July 11, 2006 (the “Snowden Report”) is attached hereto as Appendix A. Information contained in the Snowden Report relating to reserves and resources has been prepared according to the JORC Code.

Estimates of iron ore reserves, resources, recoveries and operating costs are largely dependent on the interpretation of geological data obtained from drill holes and other sampling techniques, and feasibility studies which derive estimates of operating costs based on anticipated tonnage, expected recovery rates, equipment operating costs and other factors. No assurance can be given that the reserves and resources presented in this offering memorandum will be recovered at the quality or yield presented. In addition, investors should not assume that the resource estimates are capable of being directly reclassified as reserves under the JORC Code. See “Project Reserves and Resources” for an explanation of the differences between reserves and resources. The inclusion of resource estimates should not be regarded as a representation that these amounts can be economically exploited, particularly inferred resources, and you are cautioned not to place undue reliance on those estimates. Furthermore, as explained in “Project Resources and Reserves,” attention is drawn to the difference between reporting regimes for reserve estimates in the United States and in Australia.

The principal difference between the reporting regimes in Australia under the JORC Code and in the United States under the requirements as adopted by the SEC in its Industry Guide 7 is the absence in the United States of any provision for the reporting of estimates other than proven (measured) or probable (indicated) reserves. There is, therefore, no equivalent for “resources” under the SEC Industry Guide 7. Additionally, while the Project Group can declare proved and probable reserves under the JORC Code, presently the Project Group would not likely be permitted to declare proved and probable reserves under the SEC’s Industry Guide 7. Before a mineral deposit can be classified as a reserve under Guide 7, it must be capable of being legally and economically extracted. Presently, the Project Group does not have full tenure and authorizations in respect of the Project to legally and economically extract and produce the ore, although the Project Group is working to put the tenure and authorizations in place. In addition, the SEC is more restrictive on pricing methodologies applied to determine reserves than under JORC.

## AVAILABLE INFORMATION

None of FMG Finance, the Project Guarantors or Fortescue is subject to the periodic reporting and other information requirements of the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”) or expects to become subject to such requirements. To permit compliance with the Securities Act in connection with resales of the Senior Secured Notes, FMG Finance agrees that, for so long as the Senior Secured Notes outstanding are “restricted securities” within the definition of Rule 144(a)(3) under the Securities Act, FMG Finance will furnish, upon the request of any holder or beneficial owner of the Senior Secured Notes, such information as is specified in paragraph (d)(4) of Rule 144A under the Securities Act to such holder or beneficial owner or to a prospective purchaser of such Senior Secured Notes that is a QIB, in order to permit compliance by such holder or beneficial owner with Rule 144A in connection with the resale of such Senior Secured Notes unless, at the time of such request, FMG Finance is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, or is included in the list of foreign private issuers that claim exemption from the registration requirements of Section 12(g) of the Exchange Act (and therefore is required to furnish the SEC with certain information pursuant to Rule 12g3-2(b) under the Exchange Act). FMG Finance does not currently intend to furnish the SEC with certain information pursuant to Rule 12g3-2(b) under the Exchange Act.

## CURRENCY OF PRESENTATION AND EXCHANGE RATES

Unless otherwise specified herein or the context otherwise requires, all dollar amounts are expressed in Australian dollars (“A\$”). All references to the Senior Secured Notes are in U.S. dollars (“US\$”). References to “¢” are to U.S. cents. For the convenience of the reader, certain Australian dollar amounts have been translated into U.S. dollars. These translations should not be construed as representations that the Australian dollar amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise stated, the translation of Australian dollars into U.S. dollars has been made at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the “Noon Buying Rate”) as of June 30, 2006 (US\$0.7423 = A\$1.00).

The following table sets forth for each of the financial years and the months indicated, certain information concerning the rates of exchange of A\$1.00 into U.S. dollars based on the Noon Buying Rate. These translations should not be construed as representations that the Australian dollar amounts actually represent the U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated.

	<u>Average<sup>(1)</sup></u>	<u>High</u>	<u>Low</u>	<u>Period End</u>
<u>Financial year ended</u>				
June 30, 2001 .....	0.5320	0.5996	0.4828	0.5100
June 30, 2002 .....	0.5240	0.5748	0.4841	0.5628
June 30, 2003 .....	0.5884	0.6729	0.5280	0.6713
June 30, 2004 .....	0.7155	0.7970	0.6390	0.6952
June 30, 2005 .....	0.7568	0.7974	0.6900	0.7618
<u>Month ended</u>				
January 31, 2006 .....	0.7505	0.7572	0.7379	0.7572
February 28, 2006 .....	0.7418	0.7548	0.7363	0.7430
March 31, 2006 .....	0.7266	0.7458	0.7056	0.7165
April 31, 2006 .....	0.7369	0.7593	0.7177	0.7593
May 31, 2006 .....	0.7639	0.7781	0.7509	0.7519
June 30, 2006 .....	0.7399	0.7527	0.7284	0.7423

(1) For the financial years indicated, the average of the Noon Buying Rates on the last day of each month during the period. For the months indicated, the average of the Noon Buying Rates on each day during the month.

The Australian dollar is convertible into U.S. dollars at freely floating rates and there are currently no exchange control restrictions in Australia applicable to U.S. currency.

Fluctuations in the exchange rate between the Australian dollar and the U.S. dollar will affect the U.S. dollar equivalent to the Australian dollar amount of Fortescue's earnings, assets and shareholders' equity.

## SUMMARY

*The following is a summary of certain information contained elsewhere in this offering memorandum. It does not contain all the information that may be important to you and is qualified in its entirety by the more detailed information appearing elsewhere in this offering memorandum. You should read this offering memorandum in its entirety, particularly the "Risk Factors" section, before investing in the Senior Secured Notes.*

### **Overview of the Project**

Fortescue seeks to become a major new producer and supplier in the global iron ore market with a particular focus on Asia.

Fortescue and the Project Group are developing a project (the "Project") that involves (1) constructing and operating iron ore mines (Cloud Break and Christmas Creek) in Western Australia to produce an initial targeted amount of 45 million tonnes per annum ("mtpa") through Chichester and (2) constructing and operating rail and port infrastructure through TPI to transport and load the iron ore for shipment to customers in Asia.

The Project is located in the iron ore rich Pilbara region of the State of Western Australia ("Western Australia"). This region contains one of the world's largest iron ore resource bases. Over the past 40 years, approximately 3,500 million tonnes ("mt") of iron ore have been shipped from the region and, in 2005, exports from Western Australia accounted for 30% of the world's total seaborne traded iron ore.

The unprecedented recent and forecast economic growth of China and recent positive improvements in the economies of Japan, Korea, Thailand and India are collectively driving the requirement for a significant "uplift" in the supplies of construction and fabrication materials to support and sustain that growth. On average, each tonne of steel produced requires 1.6 tonnes of iron ore. Asia does not currently have available abundant supplies of local high quality iron ore to feed their current and projected demand. CRU (an international management consulting company specializing in the international metals, mining and electricity industries) forecasts Asia's iron ore demand to more than double over the next 15 years. Based on BHP Billiton's and Rio Tinto's public announcements, the expected demand for Pilbara iron ore would outstrip supply from the major Australian producers. Fortescue believes that this predicted shortfall in supply provides the Project with a significant opportunity.

Fortescue expects to sell the vast majority of its off-take to Chinese customers and the remainder to other Asian customers, particularly in Japan and Korea. As China is the major iron ore growth market in Asia, Fortescue has focused more of its marketing efforts on supplying this increased demand than on seeking to displace existing suppliers in other Asian countries.

Fortescue's marketing strategy has been to focus on Chinese mills that:

- (1) based on recent expansions and government approvals to expand are expected to have sufficient scale and opportunities for a long-term supply arrangement;
- (2) have a history of successful off-take agreements with major seaborne suppliers such as BHP Billiton, Rio Tinto and Companhia Vale do Rio Doce ("CVRD"); and
- (3) are located on the coast or have major river access and, hence, are well located to accept imported ore.

A feasibility study for the port and rail system (including the ore crushing and screening plant) of the Project was completed by WorleyParsons on September 8, 2005 (the "Infrastructure Feasibility Study"). A definitive

mine feasibility study was completed by Fortescue as a compilation of studies by professionals and independent consultants on April 19, 2006 (the "Mine Feasibility Study" and, together with the Infrastructure Feasibility Study, the "Definitive Feasibility Study"). The Definitive Feasibility Study provides the basis for capital and operating costs of the Project. ProMet Engineers Pty Ltd, an engineering firm based in Perth, also provided estimates for the operating costs of the rail and port activities. Winters, Dorsey and Company, LLC ("WDC"), a U.S. engineering company, has been retained to provide an independent review of the capital and operating costs of the Project for purposes of this offering memorandum.

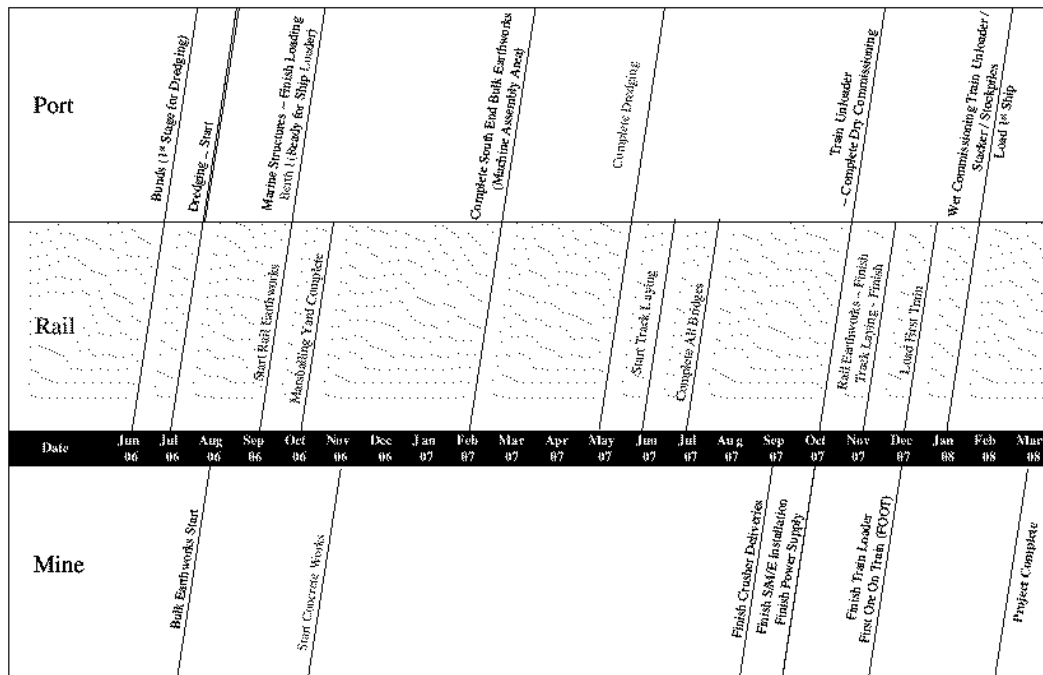
The Project will comprise open cut mining at the Christmas Creek and Cloud Break deposits principally utilizing bucket wheel excavators and conveyors for overburden removal and surface miners and conveyors for iron ore mining, with a conventional crushing and screening plant to conform the iron ore to the required product sales specifications. A 260 kilometre railroad with loading and unloading facilities and rail loops at each end will be constructed between the initial mine at Cloud Break and a new port facility to be constructed at Port Hedland, which is on the north west coast of Western Australia. The new port facility at Port Hedland will comprise a stockpile area, stackers and reclaimers, associated conveyor equipment, a ship loader to a berth and lay-by berth to facilitate exports from the port.

The Project will be undertaken principally under the auspices of two Western Australia State Agreements: (1) the Mining State Agreement, which will regulate the mining operations and (2) the Infrastructure State Agreement, which regulates the rail and port operations. The State Agreements will provide the main legal underpinnings of the Project and govern how the Project in many material respects is to proceed.

The vast majority of construction for the Project will be managed through an integrated project team consisting of the Project Group's own personnel and personnel provided by WorleyParsons pursuant to an overarching Engineering Procurement and Construction Management contract ("EPCM Contract"). TPI and WorleyParsons have formed an integrated Project delivery team ("Team 45") with the goal of bringing maximum transparency and control to the construction process. Mining-related construction and operation will be undertaken by Roche Mining Pty Ltd ("Roche") under an alliance contract with Chichester and PMA. Connell Wagner Pty Ltd ("Connell Wagner") is a large and experienced engineering consultant in the Asia-Pacific region that is expected to be engaged as Independent Engineer to act in conjunction with the Trustee on behalf of the holders of the Senior Secured Notes. Connell Wagner has agreed to engage WDC as a consultant.

Considerable design and preliminary development work has been completed, including geological work, product quality testing and a Definitive Feasibility Study in relation to the mines and the port and rail systems. Preliminary earthworks associated with the construction of the port began in February 2006 and port dredging activities commenced in July 2006. Pending receipt of certain governmental approvals, earthworks associated with the development of the rail system are expected to begin in the third quarter of calendar 2006. Trial mining was conducted between November 2005 and January 2006 and construction of the mine facilities is expected to commence in the last quarter of calendar 2006. The first ore is expected to be shipped in the first quarter of calendar 2008, with final commissioning and testing of the infrastructure facilities expected to be completed in March 2008. Key schedule dates are as follows:

**KEY SCHEDULE DATES**



Fortescue has invested approximately A\$183 million in pre-construction activities to develop the Project from 2003 through June 2006. The total estimated construction costs for the rail and port facilities are A\$1,922 million and A\$550 million has been estimated for the initial mining equipment, including a crushing and screening plant at Cloud Break. Included in these estimates is an A\$198 million risk provision contingency.

It is anticipated that these costs will be funded through (i) the net proceeds from the Offering of the Senior Secured Notes, (ii) US\$300 million from the placement (the "Leucadia Placement") of 26,400,000 ordinary shares of Fortescue to Leucadia National Corporation ("Leucadia"), (iii) the issue of US\$100 million of unsecured subordinated notes (the "Leucadia Subordinated Notes") to Leucadia by Chichester and (iv) equipment leasing arrangements.

Leucadia is a New York Stock Exchange listed holding company that owns a variety of businesses and investments, including in manufacturing, telecommunications, real estate activities and agricultural operations. As at March 31, 2006, Leucadia reported cash and marketable securities for new investments of approximately US\$2.1 billion. For the year ended December 31, 2005, Leucadia reported revenues of US\$1.04 billion and had total assets of US\$5.3 billion and common shareholders' equity of US\$3.7 billion.

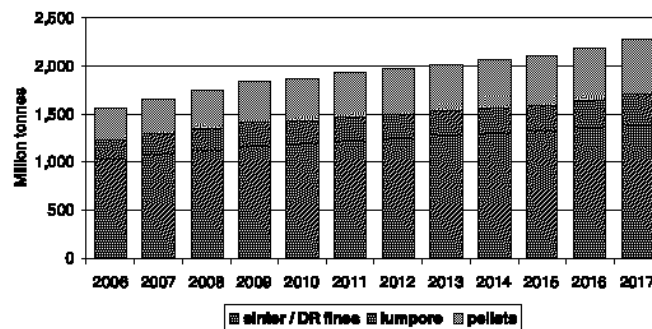
## Project Strengths

### *Strong iron ore market*

Both current and forecast levels of global demand for iron ore present a good opportunity for the Project to secure a long term market position. According to CRU, between 2005 and 2020, world consumption of iron ore is expected to increase by 975 mt, which is an average of 61 mtpa. CRU calculates that this would require an additional iron ore operation of a scale of the Project to be developed and to come into production every year between now and 2020.

The principal driver of this growth in demand is China. For this reason, China is the Project's principal target market. From 2001 to 2005, China's consumption of iron ore grew from 327 mt to 678 mtpa, an increase of 107%. To put this in perspective, total world consumption of iron ore grew from 1.03 billion tonnes to 1.45 billion tonnes from 2001 through to 2005, representing an increase of 41%. CRU predicts that by 2020, China alone will consume 1.36 billion tonnes of iron ore and will account for 50% of the global consumption of iron ore.

**Global breakdown of estimated iron ore consumption by product**



Source: CRU

The iron ore supply industry is characterised by high barriers to entry. The global seaborne trade in iron ore is currently dominated by CVRD from Brazil, Rio Tinto and BHP Billiton, both from Australia, each of which has established proprietary infrastructures to access the seaborne market. These three companies together account for more than 70% of the seaborne iron ore trade. As the currently known iron ore reserves are primarily in areas with limited access, any start-up iron ore producer has to have available large scale capital resources to build their own access infrastructure. This has hindered independent small-scale producers of iron-ore. Consolidated supply dominated by these large producers, effective price negotiating mechanisms, and rational supply side response have led to historical long-term stability and profitability for iron ore suppliers.

The generally lower quality and higher cost of Asian produced iron ore compared to that which is available from Australia means that the primary limit of sales volumes out of Australia should be the capacity of Australian producers to expand production and infrastructure capacity.

The pricing mechanism for the Project's iron ore is based on a long standing industry process whereby the major international suppliers of iron ore (Rio Tinto, BHP Billiton and CVRD) negotiate annually with certain of the world's major steel mills to establish a benchmark price for their premium products. Once the price is agreed for the premium products, pricing adjustments are then made for all other ore types in the market to reflect relative performance and quality differences from the premium products.



The following table shows CRU's base case forecast for benchmark prices for Rio Tinto's Hamersley iron ore.

**CRU Iron Ore Price Forecasts—Base Case**

<u>(US ¢/dmtn, nominal)</u>	<u>Basis</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Avg Growth 2005-2012</u>
Hamersley Fines . . . . .	fob Dampier	61.7	73.5	77.1	69.4	61.6	53.2	49.9	51.2	-2.6%
Hamersley Lump . . . . .	fob Dampier	78.8	93.8	96.1	86.5	76.4	66.0	63.1	64.8	-2.8%

<u>(US ¢/dmtn, nominal)</u>	<u>Basis</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Avg Growth 2013-2020</u>
Hamersley Fines . . . . .	fob Dampier	52.5	53.9	55.3	56.8	58.2	59.8	61.3	62.9	2.6%
Hamersley Lump . . . . .	fob Dampier	66.6	68.4	70.3	72.2	74.2	76.3	78.4	80.6	2.8%

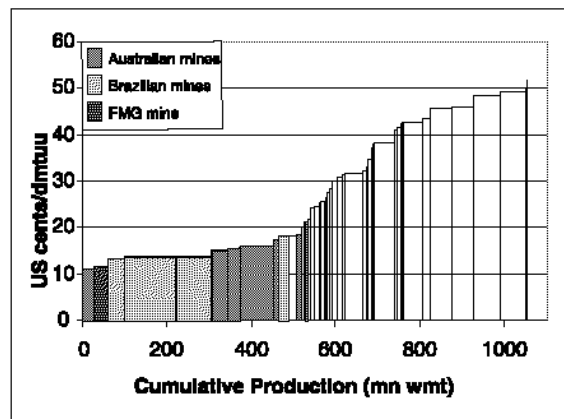
Source: CRU

CRU provided an independent analysis of the iron ore market and the relative value and marketability of Fortescue's products for purposes of this offering memorandum. See "Industry Overview."

**The Project is expected to be a low cost producer of iron ore**

The Project is expected to be one of the lowest cost producers in the world on a free on board ("FOB") basis.

**Iron ore fines site cost curve (2008)\***



Source: CRU

\* Site costs include all the cash costs incurred from iron ore mining to the FOB point.

With freight representing a significant portion of the landed cost, the Pilbara's proximity to key Asian markets should provide a location advantage over other competing seaborne export countries, such as Brazil and South Africa, from which transportation costs are higher. CRU predicts that the Project's iron ore will be more attractive to Far East steel mills than that of most other major volume producers due to its performance characteristics, productivity and the Project's location advantage.

The following chart demonstrates CRU's predictions of the commercial attractiveness of fines ores in Asia.

**Commercial attractiveness of fines ores in the Far East**

<u>Supplier</u>	2008		2011	
	Cost \$/t Fe*	Rank	Cost \$/t Fe*	Rank
Fortescue Super Value .....	82.07	4	64.51	3
Fortescue High Grade .....	81.57	3	64.65	4
Hamersley System (Pilbara) .....	84.28	6	65.56	6
Mt Newman (Pilbara) .....	84.52	7	65.78	7
Robe River (Pilbara) .....	77.16	2	62.11	1
Yandi (Pilbara) .....	82.86	5	65.30	5
Carajas (Brazil) .....	89.01	9	73.69	10
Caemi (Brazil) .....	89.19	10	73.27	9
Sishen (South Africa) .....	76.31	1	62.73	2
Bailadilia (India) .....	85.54	8	67.58	8

Source: CRU

\* Cost represents estimated "user cost" reflecting FOB iron ore price, cost of freight, blast furnace production costs related to chemistry of the ore and the effect of chemical and physical properties of the ore on blast furnace productivity.

***Long life production profile***

Current reserve estimates provide for a minimum Project mine life of approximately 20 years at an ongoing production rate of 45 mtpa. As reported in May 2006, the Project's JORC reserve portfolio comprises approximately 1.05 billion tonnes of reserves, of which 121 mt are proved reserves. The Project's JORC resources total approximately 2.3 billion tonnes, of which only those resources classified as either measured (144 mt) or indicated (1,370 mt) have been incorporated into the reserve study. The Project Group expects to continue to convert resources to reserves from within its existing resource base as the Project progresses.

For more detailed information on the Project reserves and resources, see "Project Reserves and Resources" and the Snowden Report at Appendix A of this offering memorandum.

***Favorable performance characteristics of Project's iron ore products***

The Project's mining tenements predominantly are within the iron ore formation type known as Marra Mamba. Marra Mamba ore is becoming increasingly important in Western Australia as the longstanding and very successful premium Brockman ore style products are expected by the Project Group to diminish in quality and economically mineable quantities. Marra Mamba ore is capable of producing lump in similar proportions to Brockman ore and typically provides for a low phosphorous product that is desired by Asian steel mills. In addition, the drill results for large parts of the Project's mining tenements show evidence of the advantageous characteristic known as microplaty hematite, which is also a key component of certain of the premium Brockman ores. Microplaty hematite is highly desired by Asian steel mills because it provides certain chemical and physical property benefits which generally improve sinter and blast furnace throughput and productivity over similar ores without microplaty hematite.

The Project initially plans to produce a product named High Grade Fines typically containing approximately 60.2% Fe and a product named Super Value Fines typically containing approximately 58.7% Fe. In the third year of production, the Project plans to produce a product named High Grade Lump typically containing approximately 61.1% Fe.

The Project's fines products are expected to be competitive on a chemical grade with other similar Australian fines products. To provide perspective on the grade of iron ore currently sold by Australian producers, in 2004 Australian producers sold approximately 210 mt of iron ore of which 84 mt (40%) had a Fe grade below that of the Project's High Grade Fines product. Further, 62 mt (30%) of the 210 mt of iron ore sold had a Fe grade below that of the Project's Super Value Fines product. This demonstrates that the Project's target product Fe grades are within current Pilbara exported product Fe grades.

Bulk test samples were used to generate simulated lump and fines products allowing sinter test work to be completed with Central South University in China ("CSU") and Australia's Commonwealth Scientific and Industrial Research Organisation ("CSIRO"). Nineteen steel mills (including 15 in China) have also evaluated the Project's sample products. The CSU test work compared the Project's sample product with a range of other iron ores from competitors and the results confirmed the commercial appeal of the Project's product type. Importantly, the results showed the technical competitiveness to customers of using the Project's ore in preference to certain other Australian ore types that are currently imported into China. Sinter test results from CSU showed that the Project's High Grade Fines product compares favorably to other Australian Marra Mamba fines ores. The Project's Super Value Fines product has also been tested by CSU and showed a higher performance compared to certain existing Australian fines channel iron products. Similarly, the Project's High Grade Lump product has been independently tested by SGS Lakefield Ore Test, and confirmed by the Project Group to have physical and metallurgical properties that are comparable to other Australian Marra Mamba lump ores.

#### ***Significant customer contracts***

To date, Fortescue has been successful in marketing its products to customers with over 80% of the Project's planned off-take already committed under contract. Fortescue and the Project Group have negotiated and executed contracts for 39.5 mtpa (based on a targeted annual production of 45 mtpa) under 28 contracts. Twenty-seven contracts are with Chinese steel mills and the other is with China's largest privately owned scrap metal merchant. These contracts include seven of the top 10 mills and 11 of the top 20 mills in China by steel production.

Fortescue and the Project Group have chosen to date not to commit to contracts for all of its expected first phase production volume so as to retain some flexibility in relation to choice of customer and product.

Pricing in the contracts is based upon an adjustment to the annual benchmark price of Rio Tinto's (Hamersley Iron) premium Brockman lump and fines products. The Project's relative pricing is 97% for the High Grade Lump product, 95% for the High Grade Fines product and 90% for the Super Value Fines product.

CRU has confirmed these adjustments are appropriate for pricing the Project's products. Furthermore, CRU believes that over time, when the market becomes more balanced in supply and demand, the steel mills will seek to lower costs by reducing the volumes they purchase from suppliers who represent higher effective cost. In those circumstances, CRU expects to see pressures in Asia on Brazilian prices and volumes as well as those from India and the traditional Australian benchmark suppliers. CRU believes the Project is well positioned to manage these pressures due to the competitive effective cost of its products.

#### ***The Project has low technical construction risk***

The Project Group considers that the nature of the technical construction risk for the Project's port, rail and mine facilities is low. The building of large scale port and rail facilities within the Pilbara has a history of over 40 years and is expected to be a relatively straightforward process for the Project Group. Although the Project Group has not previously undertaken a project of this scale, the Project will utilize experienced contractors and proven equipment. The construction methodologies and materials are well proven, with many precedents for their application within the Pilbara region.

### ***The Project Group's contracting strategy***

To mitigate construction risk, the Project Group's contracting strategy is based on a managed construction philosophy with the Project Group directly entering into multiple second level contracts in relation to the Project's construction, rather than operating through a fixed price EPC contractor arrangement. This strategy is expected to enable the Project Group to monitor construction progress and costs more closely. The Project Group believes that having direct relationships with second level contractors will facilitate direct communication and enable potential issues to be identified sooner. The Project Group's strategy also diversifies contract risk, with no single contract accounting for more than 12% of the total value of construction contracts.

The Project Group has entered into and will enter into a variety of construction contracts, including lump sum contracts, schedule of rates contracts and alliance based contracts. Lump sum contracts, which are expected to represent approximately 44% of the total value of construction contracts, provide the highest level of cost certainty. A number of the critical contracts, including the rail earthworks and EPCM contracts, have alliancing elements, where the benefit of early completion and below budget construction is shared between the Project Group and the contractor. These contracts include incentive based payments that align the interests of the contractor with that of the Project. The Project Group believes that alliance based contracts also increase transparency and provide flexibility in relation to scope, which encourages contractors to deliver the optimal outcome and reduces the likelihood of contractor disputes and litigation. The Project Group expects alliance based contracts to represent approximately 17% of the total value of construction contracts. The balance of contracts are expected to be based on schedules of rates and represent approximately 39% of total value of construction contracts.

Procurement arrangements are well advanced with major engineering, construction and fabrication groups and equipment suppliers. The Project Group has executed six of 20 material Project construction contracts valued at A\$625 million, which accounts for 44% of the total value of the 21 material Project contracts. These include contracts with BGC Contracting Pty Ltd in relation to the rail earthworks, Jan De Nul N.V. in relation to the dredging, China South Locomotive & Rolling Stock Industry (Group) Corporation in relation to the ore wagons, FFE Minerals (Australia) Pty Ltd and FFE Minerals (USA) Inc. in relation to the crushers, Metso Minerals (Australia) Limited in relation to the train unloader and WorleyParsons in relation to the engineering procurement and construction management. In addition, Fortescue considers it has substantially negotiated contracts in relation to the reclaimer, stacker and shiploader, the locomotives, the railway steel, the railway sleepers, and bridge construction.

### ***Liquidity Support, Contingencies and Allowances***

The capital structure of the Project Group includes significant liquidity support that is designed to help provide financial protection for unforeseen delays in construction and commissioning and cost overruns. The Project financing plan includes a contingency reserve of A\$549 million ("Cost Overrun Contingency Amount") represented by a A\$51 million design growth allowance, a A\$198 million risk provision contingency and a A\$300 million cost overrun reserve.

The design growth allowance of A\$51 million has been determined by Team 45 on a contract-by-contract basis to address unforeseen aspects of the Project that may require changes to the engineering design or the incomplete nature of certain aspects of the engineering design.

The risk provision contingency of A\$198 million has been determined by Team 45 on a contract-by-contract basis and is designed to address four risk criteria: duration risk, which relates to construction delay; contract risk, which relates to the likelihood of unforeseen variation under each contract; industrial relations risk; and wet weather risk. None of this contingency has been used to date.

The A\$300 million cost overrun reserve provides the Project with funding if a series of unforeseen events negatively affect the construction process beyond the protection provided by the A\$198 million risk provision contingency. These funds can be applied to meet any unforeseen cost of the Project, provided that the Project Group works within the framework of the Indenture, which requires the review, reporting and oversight of the Independent Engineer. None of this contingency has been used to date.

**Cost Overrun Contingency Amount as a Percentage of Forecast Project Capital Costs**

	<u>(A\$ millions)</u>	<u>% of Cost Overrun Contingency Amount</u>
Remaining capital cost before contingencies <sup>(1)</sup> . . . . .	2,415	23%
Remaining capital cost before contingencies excluding executed material lump sum contracts (A\$264 million as at July 21, 2006) . . . . .	2,151	26%
Remaining capital cost before contingencies excluding executed and expected material lump sum contracts and initial mining fleet (A\$981 million) . . . . .	1,434	38%

(1) Remaining capital cost to be spent before contingencies represents: Infrastructure (A\$1,522 million) plus A\$156 million of remaining cash from Bridge Loan drawings not spent, plus Mining (A\$550 million) plus Working Capital (A\$187 million).

The Project Group also intends to obtain a Project Specific Contract Works Material Damage Insurance Policy and a Contract Works Delay in Start Up Policy. The coverage will indemnify the insured party for material loss or damage to certain assets caused by an insurable event (e.g., fire, cyclone, flood, accidental damage), including a maximum amount of A\$100 million for any resulting long term (over 60 days) delay in the commencement of normal business operations of the Project for a period of up to 12 months. Such delay in start-up insurance is designed to help the insured party service debt (albeit not in accordance with scheduled payment dates) and pay other pre-agreed standing charges associated with the delay in commencement of the business, but not for loss of profit. Any such insurance obtained by the Project Group would contain customary terms, conditions, deductibles and exclusions.

In addition, the Indenture will require FMG Finance to deposit in a Debt Service Reserve Account an amount of proceeds from the Offering equal to two years of estimated interest due on the Senior Secured Notes. With the first ore expected to be shipped in the first quarter of calendar 2008 following 18 months of construction, approximately six months of the pre-funded Senior Secured Notes interest would remain to protect holders of Senior Secured Notes against any delay of up to six months in the generation of revenue.

***Straightforward operational methods for both mining and infrastructure***

Fortescue and the Project Group will operate the rail and port infrastructure and PMA will operate the mines in conjunction with Roche pursuant to their alliance contract. The Project’s team includes experienced constructors and operators of port and rail infrastructure in the Pilbara. Roche is one of Australia’s largest mining contractors.

The rail and port system benefits from being a greenfield development in that modern technology has been applied in the planning and design process, which should deliver efficiencies and facilitate expansion opportunities. Optimized gradient and curvature in the railroad and also modern port systems should provide operating and maintenance cost advantages. The area that has been allocated and is currently being developed for the port stockpile and ship loading facility at Port Hedland is approximately 67 hectares in size and will provide for substantial expansion opportunities above the Project’s initial design production of 45 mtpa. There is the

further advantage that the port site is not constrained by urban development that currently represents a constraint for the existing port operations within the town of Port Hedland.

From a mining perspective, the Project will take advantage of the horizontal nature of the iron ore deposit and the ability to access the ore zone without the need to remove substantial overburden. This factor has been taken into account in the Project mine plan where mining has been scheduled to commence across several pits within the two main mining areas at any given time. The relatively easy access to the ore zone and the fact that it exists as a gently dipping ore body is expected to enable the use of low cost mining techniques, facilitating efficient recovery of ore and improved grade control, which should aid the ability to deliver on-specification product.

### ***Experienced management***

The Project will be managed under the Services Agreement between Fortescue and the Project Group (the "Services Agreement"). Management has significant experience in major project development and operations, including iron ore mining and port and rail infrastructure in the Pilbara. Some background on the experience of some of the key executives and organizations involved in the project is as follows:

Mr. Gordon Toll (Fortescue Chairman) was involved in the development of iron ore projects in the Pilbara while working with BHP Billiton and Rio Tinto from the 1970s to the 1990s. He was involved in the development of Ore Body 29, which was the first Marra Mamba mining operation established in the Pilbara. Mr. Graeme Rowley (Executive Director Operations) worked for Rio Tinto for 23 years and was General Manager of Hamersley Iron's iron ore port and rail system in the Pilbara for over six years. Mr. Alan Watling (Head of Infrastructure) was manager of Hamersley Iron's heavy haul rail operation in the Pilbara and has spent more than 15 years in heavy haul rail operations. Mr. Bill Ramsey (Project Director) has extensive experience in project and construction management from concept through to commissioning. He has worked on several major resource projects in Western Australia (including iron ore projects) and has international project experience in Saudi Arabia. Dr. John Clout (Head of Resource Strategy) spent 12 years as a scientist at the CSIRO, where he did consulting and research work for certain of Australia's large iron ore mining projects on subjects including the improvement of iron ore product quality, product blend design, ore beneficiation and optimization of product from the mine to the steel mill. Dr. Clout has a network across international steel mills and is an adjunct Professor in Mineral Processing at the University of Queensland in Australia and China Central South University in China.

Additionally, the key project partners in WorleyParsons and Roche have extensive experience in resources project work. WorleyParsons is a leading provider of professional services to the energy, resource, and complex process industries, with over 60 offices in 30 countries in the Americas, Asia, Europe, Middle East, and Australia and over 12,000 employees. It is one of the world's largest providers of Program Management Consultancy and Integrated Project Management Team services. In the past five years, it has managed projects with a total installed cost of more than US\$20 billion and has more than twenty years experience in the metals and minerals sector. Roche mining already provide mining services under alliance arrangements in Australia. Roche is experienced in open cut mining and mining project control. Entities within the broader Roche group provide related services, including metallurgical testing, engineering design and construction.

### ***Potential for third party revenues***

The port and rail assets of the Project are being developed on an "open access" basis whereby third parties will also be eligible and encouraged to use these facilities. The concept of open access is a requirement of the Infrastructure State Agreement. Internal studies by Fortescue and the Project Group have identified a number of companies that have mining tenements in the vicinity of the proposed railway. These companies are considered

to be potential customers of the rail infrastructure given the estimated savings that have been calculated by the Project Group comparing the relativities of rail haulage to road haulage within the Pilbara. Any as yet unforecasted revenues from third parties would provide additional cash flow into the Project beyond those that have been assumed under the Project Group's Base Case Model.

***Good Relations with Government***

Fortescue has established a close and effective working relationship with the State Government of Western Australia, which has the main oversight of Project development and eventual operations. The two key components of the Project—the infrastructure (port and rail) and the mining—are each subject to an executed agreement with the State Government, being the Mining State Agreement and the Infrastructure State Agreement. The Project has established a series of management plans and processes which are designed to ensure that it conducts its business within the conditions for the project operations set by the State Government. Fortescue's decision to support Western Australian government policy and allow the Project's infrastructure to be open access as well as the scale of the potential State Government iron ore royalty stream has facilitated strong support for the Project from the Western Australian government. At Australian Federal Government level, the Project has received "Major Project Facilitation Status", which provides such projects with access to a specific contact point within an Australian Federal Government department to assist project proponents to procure any Australian Federal Government approvals that may be required.

## THE OFFERING

The summary below describes the principal terms of the Senior Secured Notes, the Parent Guarantee, the Project Guarantees and the collateral. Certain of the terms and conditions described below are subject to important limitations and exceptions. The "Description of the Senior Secured Notes" and "Description of the Collateral" sections of this offering memorandum contain a more detailed description of the terms and conditions of the Senior Secured Notes, the Parent Guarantee, the Project Guarantees and the collateral, including the definitions of certain terms used in this summary.

Issuer .....	FMG Finance Pty Ltd
Securities Offered .....	US\$            million aggregate principal amount of            % Fixed Rate Notes due            , and US\$            principal amount of Floating Rate Notes due            .
Maturity Date .....	For the Fixed Rate Notes: For the Floating Rate Notes:
Interest Rates .....	The Fixed Rate Notes will bear interest at the rate of    % per annum, accruing from            , 2006. The Floating Rate Notes will bear interest at three-month LIBOR plus    % per annum, accruing from            , 2006.
Interest Payment Dates .....	For the Fixed Rate Notes, semi-annually on            and            of each year, beginning on            . For the Floating Rate Notes, quarterly on            ,            ,            and            of each year, beginning on            .
Ranking of the Senior Secured Notes ...	The Senior Secured Notes will be senior secured obligations of FMG Finance, and will rank <i>pari passu</i> in right of payment with all existing and future senior indebtedness of FMG Finance and will be senior in right of payment to all future subordinated indebtedness of FMG Finance.
	FMG Finance has no revenue-generating operations of its own. To make payments on the Senior Secured Notes, FMG Finance will depend upon payments from Chichester, PMA and TPI (the "Project Guarantors") under intercompany loans.
Guarantees .....	Until Project Completion, Fortescue will guarantee the Senior Secured Notes on a senior secured basis (the "Parent Guarantee"). The Project Guarantors will guarantee the Senior Secured Notes on a senior secured basis for the life of the Senior Secured Notes (the "Project Guarantees").
Ranking of the Guarantees .....	The Project Guarantees will be senior secured obligations of the Project Guarantors, ranking <i>pari passu</i> in right of payment with all existing and future senior indebtedness of the Project Guarantors and will be senior in right of payment to all future subordinated indebtedness of the Project Guarantors.



The Parent Guarantee will be a senior secured obligation of Fortescue and will rank *pari passu* in right of payment with all existing and future senior indebtedness of Fortescue and will be senior in right of payment to all future subordinated indebtedness of Fortescue during the term of the guarantee.

Collateral ..... The obligations of FMG Finance under the Senior Secured Notes, Fortescue under the Parent Guarantee and the Project Guarantors under the Project Guarantees will be secured by a comprehensive security package consisting of:

- first-ranking fixed and floating charges over all present and future assets of FMG Finance and each Project Guarantor, except (1) in the case of Chichester, any tenements not related to the Project and (2) in the case of Chichester, PMA and TPI, the credit balance of certain bank accounts established as cash collateral for the issuance of performance bonds or bank guarantees in relation to the Project Guarantor's obligations under legislation, regulations or contracts entered into in relation to the Project;
- first-ranking share mortgages over all of the shares in the capital of Chichester, TPI, FMG Finance and PMA and any newly created subsidiaries of any of them;
- first-ranking charges over each of the Project Accounts and all cash and investments on deposit in the Project Accounts;
- first-ranking fixed charges over the Project Group's interests in the Infrastructure State Agreement and the Mining State Agreement;
- first-ranking fixed charge over Fortescue's interest in Offtake Agreements and Shareholder Subordinated Indebtedness;
- first-ranking mining mortgage over the mining tenements owned by Chichester that are related to the Project which are listed in Appendix C hereto;
- first-ranking mortgages of real property leasehold rights of the Project Group, when those leasehold rights have been granted, including the Port Lease;
- "featherweight charge" over all of the assets of Fortescue (other than the assets of Fortescue which are subject to the share mortgages or fixed charge referred to above); and
- "featherweight charge" over all of the assets of FMG Pilbara Pty Ltd, Chichester and International Bulk Ports Pty Ltd ("IBP") (other than the assets of FMG Pilbara Pty Ltd, Chichester and IBP which are subject to any of the charges or share mortgages referred to above),

(collectively, the "Collateral").

There can be no assurance that the proceeds of any sale of the Collateral following an Event of Default would be sufficient to satisfy payments due on the Senior Secured Notes. See “Risk Factors—Certain limitations on remedies and other claims with priority over claims of holders of Senior Secured Notes could adversely affect the rights as a security holder in insolvency proceedings.” and “—The Project Group cannot assure you that the proceeds from the sale of the Collateral securing the Senior Secured Notes would be sufficient to satisfy the amounts due on the Senior Secured Notes in the event of a default.”

For additional information regarding the Collateral and enforcement procedures under Australian law, see “Description of the Collateral” and “Enforcement of Liens”.

Optional Redemption . . . . . *Fixed Rate Notes:* FMG Finance may redeem the Fixed Rate Notes, in whole or in part, at any time on or after \_\_\_\_\_, at the redemption prices described under the heading “Description of the Senior Secured Notes—Redemption of the Senior Secured Notes—Optional Redemption—Fixed Rate Notes”, plus accrued and unpaid interest, if any, to the date of redemption.

*Floating Rate Notes:* FMG Finance may redeem the Floating Rate Notes, in whole or in part, at any time on or after \_\_\_\_\_, at the redemption prices described under the heading “Description of the Senior Secured Notes—Redemption of the Senior Secured Notes—Optional Redemption—Floating Rate Notes”, plus accrued and unpaid interest, if any, to the date of redemption.

*Tax Redemption:* FMG Finance may also redeem the Senior Secured Notes, in whole but not in part, at any time, upon giving proper notice, if FMG Finance becomes obligated to pay additional amounts to holders of the Senior Secured Notes as a result of a change in the tax laws of any relevant jurisdiction, at a price equal to the principal amount of the Senior Secured Notes, plus accrued and unpaid interest and additional amounts to the date of redemption. See “Description of the Senior Secured Notes—Redemption of the Senior Secured Notes—Optional Redemption—Optional Tax Redemption.”

Change of Control . . . . . If a Change of Control occurs, as that term is defined in “Description of Senior Secured Notes—Certain Definitions”, with respect to Fortescue, FMG Finance or the Project Guarantors, FMG Finance will be required to offer to repurchase the Senior Secured Notes at 101% of the aggregate principal amount of the Senior Secured Notes, plus accrued and unpaid interest, if any, as of the date of repurchase, as described under the heading, “Description of the Senior Secured Notes—Offer to Purchase upon a Change of Control”.

Withholding Taxes . . . . . All payments by FMG Finance in respect of the Senior Secured Notes, Fortescue in respect of the Parent Guarantee and the Project Guarantors in respect of the Project Guarantees will be made without

withholding or deduction for any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of any taxing authority within Australia, any jurisdiction in which FMG Finance, Fortescue or the relevant Project Guarantor is resident for tax purposes or any jurisdiction through which the payments are made, unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In that event, FMG Finance, Fortescue or the Project Guarantors, as the case may be, will, with certain exceptions, pay such additional amounts ("Additional Amounts") that will result in receipt by the Holder of each Senior Secured Note, the Parent Guarantee or any Project Guarantee, as the case may be, of such amounts as would have been received by such Holder had no such withholding or deduction been required.

Selected Project Accounts . . . . . *Fixed Rate DSR Account:* On the date of issuance of the Senior Secured Notes (the "Issue Date"), the Fixed Rate DSR Account will be funded with an amount sufficient to pay the first four interest payments on the Fixed Rate Notes. At all times following the fourth Interest Payment Date on the Fixed Rate Notes, FMG Finance and the Project Guarantors will maintain an amount in the Fixed Rate DSR Account no less than the amount required to make the interest payment on the Fixed Rate Notes on the next succeeding Interest Payment Date.

*Floating Rate DSR Account:* On the Issue Date, the Floating Rate DSR Account will be funded with an amount sufficient to pay the estimated interest for the first eight interest payments on the Floating Rate Notes. At all times following the eighth Interest Payment Date on the Floating Rate Notes, FMG Finance and the Project Guarantors will maintain an amount in the Floating Rate DSR Account no less than the amount required to make the estimated interest payment on the Floating Rate Notes on the next two succeeding Interest Payment Dates.

*Cost-Overrun Reserve Account:* On the Issue Date, the Cost-Overrun Reserve Account will be funded in the amount of A\$300 million.

*Lump Circuit Reserve Account:* Following Project Completion, the Lump Circuit Reserve Account will be funded with any funds remaining in the Construction and Cost-Overrun Reserve Accounts and thereafter from revenues of the Project through the cash waterfall until the account contains A\$235 million, less any amount already spent on the Lump Circuit. Funds in the Lump Circuit Reserve Account will be used for capital expenditures with respect to the Lump Circuit for the Project.

De-leverage Cash Sweep Payments . . . . . FMG Finance will be required under the Indenture to make de-leverage cash sweep payments by one or more of the following means: (i) open market purchases of Senior Secured Notes, (ii) redemption of Senior Secured Notes at the optional redemption prices set forth herein, (iii) defeasance of the Senior Secured Notes as provided in the

Indenture and/or (iv) the deposit of funds in US dollars in an account for the redemption of the Senior Secured Notes (the “De-leverage Cash Sweep Account”), which funds shall be held in cash or Cash Equivalents and shall be used for the redemption of Senior Secured Notes at the earliest optional redemption date and at the optional redemption price set forth herein. The obligation to make de-leverage cash sweep payments is subject to a cap of US\$400 million in aggregate payments made by any of the means described in (i) through (iv) above. Until de-leverage cash sweep payments in the aggregate amount of US\$200 million have been made, FMG Finance must make de-leverage cash sweep payments in an amount equal to 50% of Available Cash, defined as all revenue from the Project, after making the payments required for taxes, operating expenditures, maintenance capital expenditures, interest on the Senior Secured Notes and principal on the Senior Secured Notes, and to replenish any shortfall, the DSR Account and the Lump Circuit Reserve Account (as described under the heading “—Accounts” described below). After de-leverage cash sweep payments in the aggregate amount of US\$200 million have been made, FMG Finance must continue making de-leverage cash sweep payments in an amount equal to 25% of Available Cash until the cap of US\$400 million has been reached. None of FMG Finance, Fortescue or any of the Project Guarantors may make any discretionary capital expenditures (which excludes capital expenditures included in the Project Construction Plan) with any amounts of Available Cash until all de-leverage cash sweep payments required to be made with respect to such Available Cash have been made. FMG Finance’s obligation to make de-leverage cash sweep payments will terminate as of the date on which the Senior Secured Notes receive an Investment Grade Rating from at least two credit rating agencies.

Limitations on Distributions ..... The Indenture for the Senior Secured Notes will include restrictions on the ability of FMG Finance and the Project Guarantors to pay dividends or make other distributions, redeem or repurchase equity interests or subordinated debt obligations, or make any investments, or make payments on the Leucadia Subordinated Notes or subordinated shareholder loans unless Project Completion has occurred, various Project Accounts will be fully funded, no defaults will have occurred and be continuing, and at the time of the making of any such payments and after giving effect thereto, FMG Finance and the Project Guarantors would be able to incur additional indebtedness under the Indenture covenant limiting their indebtedness.

Restrictive Covenants ..... The indenture governing the Senior Secured Notes, the Parent Guarantee and the Project Guarantees, will contain covenants limiting the ability of FMG Finance and each of the Project Guarantors, and until Project Completion, the ability of Fortescue, to:

- incur or guarantee additional indebtedness;
- pay dividends, make other distributions, make payments on subordinated shareholder loans, pay interest on the Leucadia

Subordinated Notes or redeem or repurchase equity interests or subordinated debt obligations;

- make investments;
- sell assets, including the capital stock of FMG Finance and the Project Guarantors;
- create liens;
- enter into transactions with affiliates;
- enter into sale and leaseback transactions;
- merge or consolidate or transfer all or substantially all of its assets;
- engage in business other than the Project;
- in the case of FMG Finance and each of the Project Guarantors, incur any indebtedness with Fortescue or any direct or indirect subsidiary of Fortescue other than FMG Finance and the Project Guarantors; and
- in the case of FMG Finance and each of the Project Guarantors, accept restrictions on their ability to pay dividends, transfer assets or make intercompany loans.

Each of the covenants is subject to important limitations and qualifications. For more details, see “Description of the Senior Secured Notes—Selected Covenants under the Indenture, and—Selected Covenants under the Parent Guarantee”.

Ownership and Control . . . . . With one exception, Fortescue will be required under the Indenture to own at all times, directly or indirectly, at least 100% of the capital stock of Chichester, FMG Finance, PMA and TPI. IBP is a direct wholly-owned subsidiary of Fortescue that holds, as of the Issue Date, 100% of the issued and outstanding shares of the capital stock of TPI. Fortescue may sell and IBP may issue and sell, shares of capital stock of IBP, provided that:

- as of the date of the proposed sale of the capital stock of IBP and after giving effect to such sale, no Default or Event of Default has occurred and is continuing;
- no downgrade of the rating of the Senior Secured Notes would occur as a result of any such sale;
- an arm’s-length service agreement is in place between Chichester and TPI, pursuant to which TPI agrees to give preferential treatment to the transport of the iron ore mined by the Project on the TPI infrastructure to the maximum extent permitted under the Infrastructure State Agreement;
- an arm’s-length intercompany note exists between FMG Finance and TPI;
- Fortescue retains at all times operational control of TPI and, prior to Project Completion, directly or indirectly, more than 50.1% of

the voting and economic interests in the outstanding capital stock of TPI; and

- all the net proceeds from such sale are used to make de-leverage cash sweep payments in the manner described above or, prior to Project Completion, deposited in the Construction Account to be used to fund Project costs.

Project Covenants ..... In addition to the restrictive covenants described above, the Indenture for the Senior Secured Notes also includes several affirmative and negative covenants regarding the obligations of FMG Finance and the Project Guarantors with respect to the Project, including:

- Maintenance of corporate existence;
- Limitation of their business to the Project;
- Limitations on their ability to expand the Project;
- Preservation of assets;
- Maintenance of books, records, management information, accounting and cost control systems and financial reporting;
- Compliance with law;
- Maintenance of approvals for the transaction documents, the mining project and the infrastructure project;
- Design, procurement, construction and completion of the Project;
- Changes to the Master Control Budget and the Project Construction Plan;
- Amendment or termination of project documents; and
- Maintenance of credit ratings for the Senior Secured Notes,

among other things. For additional details regarding these affirmative and negative covenants, see “Description of the Senior Secured Notes—Selected Project Covenants under the Indenture”.

Transfer Restrictions ..... The Project Group has not registered the Senior Secured Notes or accompanying guarantees under the Securities Act, and the Senior Secured Notes and accompanying guarantees are subject to restrictions on transfer. For a discussion of these restrictions, see “Notice to Investors.”

Form and Denomination ..... The Senior Secured Notes will be issued only in fully registered form, without coupons, in denominations of US\$2,000 of principal amount and integral multiples of US\$1,000 in excess thereof.

Each tranche of Senior Secured Notes will be issued initially in the form of two global notes, a Rule 144A global note and a Regulation S global note, which will collectively represent the aggregate principal amount of that tranche of notes being offered under this offering memorandum and will be in fully registered form without coupons.

The global notes will be deposited with the custodians for the book-entry depositaries. The book-entry depositaries will issue depositary interests in respect of each global note representing Senior Secured Notes to DTC and will then record such interests in their respective books and records in the name of DTC's nominee or the common depositary for Euroclear and Clearstream, Luxembourg, as applicable. Ownership of book-entry interests in the depositary interests will be limited to persons who have accounts with DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and transfers will be effected only through records maintained in book-entry form by DTC and Euroclear and Clearstream, Luxembourg and their respective participants.

Except as set out under the section "Description of the Senior Secured Notes—Book-Entry Delivery and Form," participants or indirect participants in DTC and Euroclear and Clearstream, Luxembourg will not be entitled to receive physical delivery of notes in definitive form or to have notes issued and registered in their names and, while the notes are in global form, will not be considered the owners or holders thereof under the indenture.

Trustee and Calculation Agent . . . . .	The Bank of New York.
Collateral Trustee . . . . .	Permanent Registry Limited (an Australian corporation), which may use its affiliate The Bank of New York as its agent with respect to any Project bank account that constitutes collateral in the City of New York.
Independent Engineer . . . . .	Connell Wagner Pty Ltd. or such other engineering company as the Trustee and Fortescue may appoint.
Listing . . . . .	Application has been made to list the Senior Secured Notes on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The Senior Secured Notes are expected to be eligible for trading in the Private Offerings, Resales, and Trading through Automatic Linkages Market commonly referred to as the PORTAL Market.
Governing Law . . . . .	The Senior Secured Notes, the Parent Guarantee, and the Project Guarantees will be governed by the laws of the State of New York. The security documents related to the Collateral will be governed by the laws of Western Australia, except any security document relating to any Project bank account that constitutes collateral in the City of New York may be governed by the laws of the State of New York.

**Risk Factors**

Prospective purchasers of the Senior Secured Notes should consider carefully all of the information set forth in the offering memorandum and, in particular, the information set forth under "Risk Factors" before making any investment in the Senior Secured Notes.

### Project Financing Plan

The table below summarizes the estimated Project financing costs and the projected sources of capital.

<u>Sources of Funds</u>	<u>A\$<sup>(1)</sup></u>	<u>US\$<sup>(1)</sup></u>	<u>Application of Funds</u>	<u>A\$<sup>(1)</sup></u>	<u>US\$<sup>(1)</sup></u>
	(in millions)			(in millions)	
<b>Debt</b>			<b>Project Capital</b>		
Senior Secured Notes . . . . .	2,560	1,900	Feasibility capital expenditure <sup>(3)</sup> . .	183	136
Operating Leasing <sup>(2)</sup> . . . . .	121	90	Repayment of Bridge Loan <sup>(6)</sup> . . . . .	202	150
			Infrastructure <sup>(7)</sup> . . . . .	1,522	1,130
<b>Equity and Subordinated Debt</b>			Mining <sup>(8)</sup> . . . . .	550	408
Sponsor Equity <sup>(3)</sup> . . . . .	183	136	Working Capital <sup>(9)</sup> . . . . .	187	139
Leucadia Placement . . . . .	404	300			
Leucadia Subordinated Notes . . . . .	135	100	<b>Contingencies</b>		
			Cost Overrun Reserve Account . . .	300	223
<b>Other Sources</b>			Risk provision contingency <sup>(10)</sup> . . . .	198	147
Interest on proceeds on deposit <sup>(4)</sup> . . . .	175	130			
Initial production <sup>(5)</sup> . . . . .	109	81	<b>Financing Related Costs</b>		
			Debt Service Reserve		
			Account <sup>(11)</sup> . . . . .	461	342
			Fees <sup>(12)</sup> . . . . .	84	62
	<u>3,687</u>	<u>2,737</u>		<u>3,687</u>	<u>2,737</u>

- (1) Translation between U.S. dollars and Australian dollars at an exchange rate of US\$1.00 = A\$0.7423.
- (2) Operating lease facilities to be used to finance mining equipment. Fortescue may increase the amount of operating leasing and reduce the amount of Senior Secured Notes if it receives further lease commitments prior to pricing of the Offering. Additional operating lease facilities, if committed prior to pricing of the Offering, may be utilized to finance other equipment such as locomotives and rolling stock.
- (3) Represents the funds spent by Fortescue and the Project Group on the Project through June 30, 2006.
- (4) Interest expected to be earned on the proceeds of the Leucadia Placement, Leucadia Subordinated Notes and the Senior Secured Notes during the construction period at the forecast rate of 5.5% per annum.
- (5) Represents approximately 50% of the net iron ore proceeds (less operating expenses) from initial production earned during the five months post first shipment between February and June 2008 while construction capital is still being spent.
- (6) Bridge Loan drawn to US\$150 million will be repaid at the closing of the Offering.
- (7) Represents total infrastructure cost to be spent and funded of A\$1,724 million (A\$1,922 million, which includes a design growth allowance of A\$51 million, less A\$198 million risk provision contingency), less A\$46 million funded by the Bridge Loan and spent prior to June 30, 2006, less remaining cash from drawings under Bridge Loan of A\$156 million.
- (8) Mining includes A\$325 million for the crushing and screening plant plus A\$225 million for the initial mining fleet.
- (9) Working capital to fund operational expenditure during the construction and initial production period.
- (10) Represents the risk provision contingency determined on a contract-by-contract basis and designed to capture four risk criteria: duration risk, which relates to construction delay; contract risk, which relates to the likelihood of unforeseen variation under each contract; industrial relations risk; and wet weather risk.
- (11) Cash to be applied to the Debt Service Reserve Account to cover the cost of interest payments for the Senior Secured Notes for the first two years following closing of the Offering.
- (12) Fees and expenses including financial advisory, legal and underwriting associated with the Leucadia transactions and the Offering of the Senior Secured Notes.



### Summary Base Case Model

The base case model set forth below (the “Base Case Model”) represents assumptions and estimates of the management of the Project Group for the Project Group’s anticipated results of operations for each of the calendar years in the period ending December 31, 2013. The summary projected financial data was not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants or U.S. generally accepted accounting principles. The summary projected financial data should be read together with the information contained in “Cautionary Note Regarding Forward-Looking Statements”, “Risk Factors”, “Base Case Model”, “Project Financing Plan”, “Management’s Discussion and Analysis” and “Business”.

	Years Ending December 31,							
	2006	2007	2008	2009	2010	2011	2012	2013
<b>Product output sold</b>								
High Grade Lump (mt) . . . . .	—	—	—	4.50	6.00	7.26	7.83	9.00
High Grade Fines (mt) . . . . .	—	—	22.08	25.50	24.00	20.99	22.17	21.00
Super Value Fines (mt) . . . . .	—	—	11.75	15.00	15.00	15.00	15.00	15.00
<b>Prices<sup>(1)</sup></b>								
High Grade Lump (US\$/t)								
(at 97% of benchmark) . . . . .	49.11	50.01	46.54	41.32	35.92	33.42	33.70	34.63
High Grade Fines (US\$/t)								
(at 95% of benchmark) . . . . .	36.90	38.26	35.81	31.91	27.77	25.47	25.54	26.20
Super Value Fines (US\$/t)								
(at 90% of benchmark) . . . . .	34.09	35.34	33.08	29.47	25.65	23.53	23.60	24.20
<b>Revenue</b>								
High Grade Lump (US\$ million) . . . .	—	—	—	180.0	215.5	242.7	263.8	311.6
High Grade Fines (US\$ million) . . . .	—	—	790.4	818.0	666.4	534.5	566.4	550.1
Super Value Fines (US\$ million) . . . .	—	—	388.0	442.1	384.7	352.9	353.9	363.0
Total Revenue (US\$ million) . . . . .	—	—	1,178.5	1,440.2	1,266.6	1,130.1	1,184.1	1,224.7
EBITDA (US\$ million) . . . . .	(20.8)	(71.8)	956.7	1,118.4	903.7	711.6	699.4	736.8
EBIT (US\$ million) . . . . .	(20.8)	(89.8)	868.1	1,020.5	803.1	610.3	598.1	635.5
<b>Cash flow available for debt service</b>								
(US\$ million) <sup>(2)</sup> . . . . .	<b>(365.1)</b>	<b>(1,039.6)</b>	<b>261.6</b>	<b>664.7</b>	<b>677.7</b>	<b>472.5</b>	<b>398.6</b>	<b>254.7</b>
<b>EBITDA/Interest</b>								
Expense(x) <sup>(3)(4)</sup> . . . . .			6.0	8.7	11.7	18.8	98.0	—
<b>Lease Adjusted EBITDA/Interest</b>								
Expense(x) <sup>(3)(4)</sup> . . . . .			5.7	7.9	10.1	10.8	16.9	—
<b>EBITDA/Revenue</b>								
EBITDA/Revenue . . . . .			81%	78%	71%	63%	59%	60%
Lease Adjusted EBITDA/Revenue . . . .			83%	80%	75%	70%	66%	66%
<b>Net Senior Debt/EBITDA</b>								
Net Senior Debt/EBITDA . . . . .			1.1	0.6	0.2	—	—	—

- (1) Prices are net of royalties payable to the State of Western Australia.
- (2) Net iron ore sales proceeds and interest income less taxes, operating expenses and maintenance capital.
- (3) Assumes all distributable cash, after the payment of interest on the Leucadia Subordinated Notes, is used to buy back Senior Secured Notes and deleverage the Project.
- (4) Interest expense does not include interest on the Leucadia Subordinated Notes.

## RISK FACTORS

*An investment in the Senior Secured Notes involves a high degree of risk. In addition to the other information contained in this offering memorandum, the following factors, certain of which are not typically associated with investing in securities of companies located in the United States, should be carefully considered by prospective investors in evaluating an investment in the Senior Secured Notes.*

### ***Risks Relating To Project Development***

***The Project Group does not have an operating history and has not previously implemented a project of this scale.***

The Project Group's sole asset and Fortescue's principal asset is the Project Group's interest in the Project. The Project does not have an operating history and is still in the early stages of development. While members of the senior staff of Fortescue and the Project Group and both WorleyParsons and Roche have considerable project experience, the Project Group has not previously implemented a project of the scale of the Project. The Project Group will be subject to all the risks inherent in the establishment of a new greenfields mining and infrastructure project. The Project Group's ability to pay interest on and principal of the Senior Secured Notes when due will depend upon the commercial viability and profitability of the Project. The Project Group's commercial viability and future profitability are substantially dependent upon the completion, commissioning and successful operation of the Project. While the Project Group has planned the design, construction and initial operation of the Project based on the Definitive Feasibility Study, the Project Group and Fortescue cannot assure you that the Project Group will be able to commission or sustain successful operation of the Project or that the Project Group will achieve project completion or commercial viability.

***If the Project Group is not successful with the Project, the Project Group and Fortescue may not have other means of deriving revenues to pay interest and principal on the Senior Secured Notes.***

The Project is the only business activity that the Project Group intends to undertake and will be its and Fortescue's principal means of deriving revenue. Virtually all of the Project's assets and resources will be employed in the development of the Project. Until completion, the Project is not expected to generate income to cover its expenses. Because the three components of the Project—the mine, the railway and the port—are interdependent, failure in any one of the three parts will have deleterious effects on the Project as a whole. Once completed, the Project will have only one railway to rely on to transport the iron ore to the port and will only have access to the Project's port for shipping the iron ore. If any part of the infrastructure fails, transportation of the iron ore may become uneconomic. Failure of the Project Group to successfully complete any one or more of the three components of the Project on the schedule and in the manner anticipated or failure of the Project Group to successfully operate the rail and port or the loss of operability of the rail or port for any reason may cause the Project Group's and Fortescue's inability to make payments of principal and interest on the Senior Secured Notes when due, or at all.

***Construction costs for the development of the Project may be higher than anticipated and the Project may be subject to delays.***

The mine and certain related infrastructure comprising the Project have not yet been constructed and commercial mining has not yet commenced. The success of the Project depends in significant part upon the Project Group's ability to complete construction and commence production within the planned time frame and in accordance with the cost estimates contained in the Definitive Feasibility Study and cost control estimates. The Infrastructure Feasibility Study and the subsequent cost control estimate are based on estimates relevant to the information and level of design and engineering studies completed at the time and their accuracy cannot be assured for reasons including those set out in "Risk Factors" as well as the disclaimers, qualifications and assumptions contained within the Infrastructure Feasibility Study and in relation to the cost control estimate. Accordingly, the estimate does not represent a known price and it may vary during construction. Equally, the capital costs surrounding the Mine Feasibility Study conducted by Snowden are also estimates and may vary from the actual costs required to implement the mining program.

Commissioning of the Project is not expected to occur until the first quarter of calendar year 2008. Apart from extensive earthworks at the Port site, very little of the Project construction and development work has been completed as of June 2006. Also while some key contracts for the construction of the Project have been signed there are other key contracts still to be negotiated which will cover significant works under the Project schedule. If the Project Group does not complete negotiations with and commit necessary contractors to the Project on the anticipated schedule, development of the Project may be significantly delayed as a result.

Completion of construction and commencement of iron ore production may be delayed, or require the expenditure of significant additional funds, by factors outside the control of the Project Group, such as the inability of contractors to complete construction of the mine rail or port and related infrastructure in a timely manner, changes in the regulatory environment, industrial disputes, unavailability of parts, machinery or operators, inability to obtain the necessary permits, licenses or approvals from government authorities or third parties, unforeseen geological, physical or meteorological conditions, natural disasters, labor shortages, political and other factors, or factors within the control of the Project Group, such as requested changes to the technical specifications, failure to enter into additional agreements with contractors or suppliers in a timely manner, shortage of capital and labor stoppages. Any construction delay would defer the production of iron ore at the Project, which would impact on the Project Group's cash flow and financial performance and ability to meet some of its contractual supply obligations. Until production and shipment of iron ore in commercial quantities commences, the Project Group will have no significant revenue. Any delay or further expenses could have a material adverse impact for the Project Group on the results of operations, financial condition, ability to achieve Project Completion and ability to pay principal and interest on the Senior Secured Notes.

***Construction risk will be borne primarily by holders of the Senior Secured Notes, as no sponsors or contractors have agreed substantially to support completion risk for the Project.***

The Project Group has not engaged an EPC contractor to construct the total Project on a fixed-price, turn key basis and the contracting strategy of the Project Group is to engage Project component contractors separately. In addition, the Project Group will have only limited avenues of recourse against individual contractors who are engaged but fail to perform as there is no single overarching contractor that would bear these risks. A number of the most significant contracts for the Project establish alliances with the counterparties as opposed to firm fixed price obligations. For instance, Chichester and PMA are relying on a Mining Alliance Agreement with Roche to undertake the mining aspect of the Project. Team 45, which includes WorleyParsons, is managing the construction of the railway, the port and the crushing and screening plant under the EPCM Contract. For the rail earthworks, TPI is relying on the Rail Earthworks Alliance Agreement with BGC Contracting Pty Ltd. If the counterparties in these contracts fail to fulfill their obligations, the Project will bear the full risk of such failure rather than the contractors, which may result in a material adverse effect on the Project and the Project Group's ability to make payments of interest and principal on the Senior Secured Notes when due, if at all.

***The Project Group's projections for mining iron ore include a new application of strip mining methodology, which has not yet been applied in other iron ore mining settings.***

Mining of the tenements at Christmas Creek and Cloud Break is expected to be done by utilizing surface or strip mining techniques. The Project Group anticipates that the position and structure of the iron ore mineralization in the Chichester Range will allow for a strip mining process with the ability to back-fill mined areas as excavations move along the mine length, which the Project Group expects will be a cost-effective mining process. While the application of the Surface Miner has been successfully trialled by the Project Team at its Cloud Break deposit, the commercial scale application of surface mining equipment has not been done before for iron ore in the Pilbara. Accordingly there is a risk that the Surface Miner will not perform to the expectations articulated in the Mine Feasibility Study. Factors that could impact on the effectiveness of the use of surface miners at the Project include the actual hardness and consistency of the ore body encountered during mining, adjustments to the mine plan as more reserves are proved, wear and tear on the machinery and in particular the consumable picks and other factors. While Surface Miners have been used in other types of mining, such as in

coal, bauxite, gypsum and limestone mining, and the methodology has been successfully tested on iron ore at a (370,000 tonne) trial pit at Cloud Break, the Project Group cannot provide assurance that the application of such approaches to iron ore mining will be successful or cost effective.

***The Project Group cannot assure you that additional native title claims will not arise and interfere with the grant of further tenure required for the Project.***

In Australia, the Commonwealth government's Native Title Act 1993 recognizes native title and establishes processes relating to the grant of certain interests in land (including mining tenements and miscellaneous licenses such as the Special Railway License). Indigenous Australians have registered native title claims which overlap with the proposed Project land interests at the port, rail and mine and Fortescue, Chichester and TPI have entered into agreements with all currently registered claimants pursuant to which they have agreed to the grant of existing and future tenure required for the Project (the "Land Access Agreements"). Indigenous Australians who are not registered claimants could apply under the Native Title Act to become registered native title claimants, but must satisfy the registration test before they can be registered. If additional native title claims are registered before the Special Railway License, Lateral Access Road Licenses and certain other types of land tenure which may be applied for in connection with port and rail are granted, these newly registered native title claimants would be entitled to participate in the Native Title Act procedures in respect of the grant of such tenure. This process may cause delays in the grant of the Special Railway License or Lateral Access Road Licenses, and these licenses may be granted subject to conditions that are unfavorable to the Project Group.

Prior to TPI's proposals under the Infrastructure State Agreement being approved, the Native Title Act procedures must be complied with, which includes the requirement to advertise the proposed grant of the Special Railway License and Lateral Access Road Licenses, including the proposed route of the railway. Registered native title claimants then have two months within which to object and be consulted. TPI proposes to seek to have the advertisement issued in the near future and prior to the route of the railway being finally approved by the Planning and Infrastructure Minister. If the route of the railway ultimately approved by the Planning and Infrastructure Minister differs from the route advertised prior to the approval, then it will be necessary to repeat the two month advertisement process, which would delay the construction schedule.

The Project Group is not currently aware of any potential new native title claims which could be registered in the Project Area before the Special Railway License and Lateral Access Road Licenses are granted.

See "Description of Certain Project Approvals and Australian Legal Matters—Native Title Approvals and Law".

***The Project Group cannot assure you that the future identification of Aboriginal heritage sites and objects in the Project area will not interfere with the development and operation of the Project.***

The Project Group has commissioned heritage surveys to identify any sites which are deemed to be "significant" to Aboriginal people in the area of the proposed port facilities and part of the proposed mining area and rail corridor. Whilst several heritage sites have been identified in the Project area, none of the sites preclude the Project Group from carrying out the Project according to current plans. However, the Project Group cannot assure you that there will not be further sites discovered in areas material to the Project's development and operation. The presence of sites of indigenous heritage significance on tenements held by the Project Group may limit or preclude exploration, mining or construction activity within the sphere of influence of those sites and delays and expenses may be experienced in obtaining clearances. Failure to resolve issues associated with sites of indigenous heritage significance could result in delays in the development of the Project and the commencement or expansion of operations. The Project Group cannot assure you that such issues will be satisfactorily resolved or that they will be resolved in a timely manner.

See "Description of Certain Project Approvals and Australian Legal Matters—Native Title Approvals and Law".

***The Project Group cannot guarantee that the applications, conversions or renewals for the Mine Plan Tenements will be approved in a timely manner, if at all.***

There is no guarantee that current or future applications, conversions or renewals of the Mine Plan Tenements will be approved. If tenement applications overlap with other pre-existing types of land tenure (e.g., pastoral leases), there may be a requirement for the applicant to commence negotiations with the relevant titleholders to gain access to the underlying land and there is no guarantee that such negotiations will be successful. Several objections to applications for mining leases lodged by Chichester have been filed in Warden's Court in Western Australia. As these objections have not yet been determined, the Project Group cannot guarantee that the tenements the subject of the applications will be granted or that the tenements will not be granted subject to conditions which are unacceptable to the Project Group. However, mining lease applications that are the subject of objections only represent 5% of the estimated mineral resources at the Christmas Creek and Cloud Break deposits.

***The Project Group cannot guarantee that the leases, licenses, permits and approvals required for the Project infrastructure will be approved in a timely manner, if at all.***

There is no guarantee that licenses, leases, permits and approvals ("Authorizations") required to construct and operate the railway and port infrastructure will be approved by the Western Australian Minister for Planning and Infrastructure ("Planning and Infrastructure Minister"). In accordance with the Railway and Port (The Pilbara Infrastructure Pty Ltd) Agreement Act 2004 ("Infrastructure Act"), in order to be granted each of the necessary Authorizations, the Planning and Infrastructure Minister must approve the route of the railway and the Project Group must submit detailed proposals addressing issues including the timing, location, area, layout, design and materials relating to the construction or provision of the railway and port facilities. The Planning and Infrastructure Minister has the discretion to approve the route of the railway and the proposals, require further proposals to be submitted or require conditions precedent to be fulfilled.

The Infrastructure State Agreement currently requires the detailed proposals to be lodged by August 31, 2006 unless extended by the Planning and Infrastructure Minister. As the detailed proposals cannot be finally lodged until the route of the railway is approved, application will be made to extend this date. Although the Project Group considers it likely that such an extension will be approved, the Project Group cannot guarantee this will occur.

An order, published on July 18, 2006 varies the protected area known as "Woodstock/Abydos" under the Aboriginal Heritage Act 1972 to exclude the route of the railway. The order is effective on signing but must be laid before both Houses of Parliament within six sitting days of being published. The order may only be overturned if either House of Parliament passes a resolution disallowing the order within 14 sitting days of the order being laid before the House. The Lower House does not sit again until August 15, 2006 and the Upper House until August 22, 2006. It is possible (although considered unlikely by the Project Group) that the order will be disallowed by one of the Houses of Parliament. The Planning and Infrastructure Minister will not approve the route of the railway until the 14 sitting day disallowance period has expired. Assuming the order is laid before the Houses of Parliament on the earliest available sitting days, the period within which it may be disallowed will not expire until September 28, 2006. The route of the railway will not be formally approved prior to this date. If the order is not laid before the Houses of Parliament on the first available sitting day the disallowance period may not expire until late October 2006. If the order is disallowed this will delay the approval of the route of the railway.

Before the Project Group will be granted the necessary Authorizations required to construct the Project infrastructure, the Project Group must obtain the written consent of each titleholder whose land is affected by the grant of the Authorizations. If any titleholder refuses to consent to the grant of the Authorizations, the Planning and Infrastructure Minister has discretion as to whether to compulsorily take the land for the purposes of the Project. If the Planning and Infrastructure Minister elects not to invoke his/her power to take the land, the Project Group may not be able to construct the proposed infrastructure on that land, which may impact on the Project Group's ability to complete the Project or may result in increased costs of using alternate routes. If the Planning

and Infrastructure Minister elects to invoke his/her power to take land for the purposes of the Project, the Project Group will be required to indemnify the State for its expenses in compensating the titleholder. A titleholder may object to the Planning and Infrastructure Minister making an order taking the land from the titleholder for the purposes of the Project (a "taking order"), which may result in delays in obtaining access to the relevant land. Any delay in or failure to obtain landholder consent may delay construction of the Project and affect the Project Group's ability to satisfy the Project Group's contractual obligations.

The Project Group's construction schedule requires earthworks on the railway to commence in September 2006 and for the construction of the accommodation camps to house the workforce to commence prior to this. Certain Authorizations which have not been granted need to be granted for these activities to commence. The Project Group's construction schedule assumes that these approvals will be granted in a minimal amount of time allowed for under relevant legislation. If there are delays in obtaining these Authorizations then the construction schedule may also be delayed.

Failure to obtain all necessary Authorisations may preclude the Project Group from being able to construct the rail and port infrastructure required for the Project or may result in the Project Group incurring significant expenses in adjusting the proposed Project design. The Authorizations may be granted subject to conditions which impose material restrictions on the Project Group's ability to carry out the Project according to the Infrastructure Feasibility Study and capital cost estimates, which may affect the profitability of the Project Group.

***The Mining State Agreement has not yet been ratified by the Upper House of the Western Australia Parliament and has therefore not become effective.***

The Iron Ore (FMG Chichester Pty Ltd) Agreement Bill 2006 ("Bill"), which annexes the Mining State Agreement, has yet to be ratified by the Upper House of the Parliament of Western Australia. The Mining State Agreement has been signed by the Premier of Western Australia and the Bill was ratified by the Lower House of Parliament in June 2006. However, as the Upper House of Parliament is in recess until August 22, 2006, the Bill cannot be considered by the Upper House of Parliament before this date. There is a risk that the Bill will not be passed by the Upper House of Parliament, in which case the majority of the provisions of the Mining State Agreement would not become operative. In respect of the clauses which are already operative, there is a risk that the executive arm of the State government could act inconsistently with the Mining State Agreement until it is ratified.

If the Bill is not ratified by the Upper House of State Parliament, or ratification is materially delayed, Chichester may not be able to undertake mining activities on the schedule, within the budget and in the manner contemplated for the Project. If the Bill does not commence as an Act by December 31, 2006, the Mining State Agreement terminates unless the parties to it agree otherwise.

Fortescue understands that the Government supports the Mining State Agreement as demonstrated by it being ratified by the Lower House of State Parliament. While the risk theoretically exists that the Bill will not be ratified by the Upper House or the Government will act inconsistently with the Mining State Agreement, Fortescue expects the Bill to be ratified by September or October 2006.

Even if the Mining State Agreement is not ratified and terminates on December 31, 2006, the granted Mine Plan Tenements would continue to be owned by Chichester and be held under the *Mining Act 1978 (WA)* (the "Mining Act"). While some of the processes and procedures associated with approvals for mining activities are dealt with differently under the Mining State Agreement compared to the Mining Act, subject to complying with the same procedures as applicable to all mining companies regulated by the Mining Act, the Project Group would still be entitled to carry out its proposed mining activities.

***Chichester may be required to establish a plant for the production of metallised agglomerates during the life of the Senior Secured Notes.***

If the Bill is passed by the Upper House of Parliament and comes into operation as an Act, Chichester will be obliged to undertake ongoing investigations into the economic feasibility of establishing a plant for the production of metallised agglomerates and must, on the earlier of 10 years from the date of first transportation of iron ore from the Mine Plan Tenements or the date 150 mt of iron ore is transported from the Mine Plan Tenements (or such later date as is permitted under the Mining State Agreement), submit detailed proposals for the establishment of the plant and implement the proposals within the prescribed timeframe after Ministerial approval is granted. If Chichester does not believe such a plant is economically feasible, it is entitled to apply for a 3 year postponement of the date by which it must submit such proposals. If the Minister disagrees with Chichester concerning the economic feasibility of establishing such a plant, the matter may be submitted to an arbitrator for determination. Alternatively, Chichester may submit proposals for the establishment of a plant in lieu of the metallised agglomerates plant and if such proposals are approved by the Mining Minister, Chichester may not be required to establish the metallised agglomerates plant. However, there is a risk that Chichester may be required to establish the metallised agglomerates plant even if it does not consider it to be economically feasible, which may affect Chichester's profitability and the operation of the Project.

***The Pilbara region is subject to unpredictable weather and cyclones.***

The Pilbara region is exposed to adverse weather events, including cyclones. These are seasonal, occurring during the summer and autumn months with concentration around the January to March period. The number of cyclones per annum is variable but averages approximately three each season. Cyclones create heavy rain and high winds, which could cause the shut down of construction and mining activities and the closure of the ship loading facilities at Port Hedland. While such abnormal weather events have been provided for within contingencies in the capital cost estimates, there is no assurance that this will be enough to cover all adverse events during the term.

***Funding of future capital expenditures is dependent on future cash flow from the Project.***

The Project is planning to introduce two additional capital expenditure items into the production system during the term of the Project. The first item is a materials handling system at the port to accommodate High Grade Lump. The equipment is basic in design and operation. However the source of funding is dependent on free cash flow out of the Project. While there is a specific provision in the cash flow cascade to capture funds for this purpose, there is a risk that there may not be sufficient cash flow to accommodate this funding. If this eventuates, the Project's ability to deliver High Grade Lump products as planned will be delayed until either sufficient cash flow from operations is generated or alternative funding is obtained. The second item is the implementation of an ore beneficiation plant in year nine of operations. This plant is designed to process the ore to extract certain impurities to effectively upgrade the product. The use of beneficiation plants is common within the iron ore industry and the Project Group together with Roche, has completed definitive engineering study design work to provide an estimate of plant type and cost. Notwithstanding the final design capital cost will only be confirmed closer to the time of construction following the completion of a full engineering and design study. Further the source of funds for the construction of this plant is assumed to be from project cash flows and this creates a risk that such funds may not be sufficient to meet this purpose.

### **Operational Risks Relating to the Business of the Project Group**

***The Australian Securities and Investments Commission ("ASIC") has brought proceedings seeking orders against Fortescue and its Chief Executive Officer, Andrew Forrest, for alleged misleading and deceptive conduct and failure to comply with continuous disclosure obligations.***

On March 2, 2006, ASIC announced that it had issued proceedings in the Federal Court in Perth seeking civil penalty orders against Fortescue and its Chief Executive Officer, Mr. Andrew Forrest. ASIC is alleging that

Fortescue engaged in misleading and deceptive conduct and failed to comply with its continuous disclosure obligations when it announced or referred to “binding contracts” and “build and transfer contracts” with China Metallurgical Construction Corporation, China Railway Engineering Corporation and China Harbour Engineering Company (Group) in the period from August 23, 2004 to March 1, 2005 (the “Representations”).

The continuous disclosure obligation is alleged to have been breached from the dates of the Representations until March 29 and 30, 2005, when it is alleged that the relevant information was first disclosed to the Australian Stock Exchange Limited (“ASX”) and these contracts were filed publicly. Fortescue lodged copies of these agreements, each of which is entitled a “Framework Agreement,” with the ASX on March 29 and 30, 2005. Copies of the August and November 2004 announcements and these agreements are available on the Fortescue website.

ASIC is alleging that Fortescue, when making the Representations, failed to disclose important information regarding the nature of these documents. In particular, ASIC alleges that Fortescue did not disclose that the parties had not reached a concluded agreement on fundamental aspects of the projects and they had merely agreed that they would in the future jointly develop and agree on such matters. ASIC alleges that this information was not disclosed to ASX until March 29 and 30, 2005.

In relation to Andrew Forrest, ASIC alleges that he was involved in the contraventions by Fortescue and that he breached his duty as a director to exercise care and diligence by failing to ensure that Fortescue complied with its obligations.

These proceedings are civil and not criminal, with maximum penalties sought by ASIC of A\$8 million from Fortescue and A\$7.6 million from Andrew Forrest personally. ASIC is seeking to make Andrew Forrest personally liable for any civil penalties imposed upon Fortescue by alleging that Fortescue has been exposed to such penalties due to Andrew Forrest’s breach of his duties as a director. ASIC is also seeking to disqualify Andrew Forrest from managing corporations pursuant to the Corporations Act. If he were disqualified, he would no longer be able to act as CEO of Fortescue. The Board of Directors of Fortescue has appointed Graeme Rowley as deputy CEO in order to be prepared for such a contingency.

The case is not expected to be heard until late 2007 or early 2008. It is not possible to assess with any certainty when the final hearing will commence or conclude. Both Fortescue and Andrew Forrest have stated that they will vigorously contest the proceedings. It is possible that other civil proceedings may be brought by individuals arising out of the same issues, although no such actions have been formally foreshadowed as yet and are likely to await the outcome of the ASIC proceedings.

***The Project Group’s mining operations will be subject to risks and hazards inherent in the mining industry.***

The exploration for and the development of mineral deposits involves significant risks that even a combination of careful evaluation, experience and knowledge may not eliminate. The Project Group’s production and exploration activities may be hampered by technical difficulties and failures, industrial accidents, industrial disputes, cost overruns, late delivery of supplies, unusual or unexpected geological formations or pressures, power interruption, critical equipment failure, fire, explosions or other accidents or acts of force majeure, land claims and compensation and other unforeseen contingencies. Any prolonged downtime or shutdowns at the Project could materially adversely affect Fortescue and the Project Group’s ability to satisfy their contractual obligations under various supply contracts, their financial performance and ability to repay the principal and interest on the Senior Secured Notes when due.

***The mineral reserve and resource estimates of the Project are estimates only and may not be recoverable in full. As a result, the Project Group may not achieve its total life of mine production estimates.***

No assurance can be given that the reserves presented in this offering memorandum will be recovered at the quality or yield presented. In addition, investors should not assume that resource estimates are capable of being



directly reclassified as reserves under the JORC Code. Mineral resources that are not mineral reserves do not have demonstrated economic viability. A mineral resource is not the equivalent of a commercially mineable ore body or a reserve.

The estimates of mineral resources and reserves for the Project are only estimates based on the judgment, experience and technical data available to the Project Group. Mineral reserve and resource estimates are based on limited sampling, which may not be representative. The Project Group cannot give any assurance that the estimated mineral reserves and resources will be recovered or that they will be recovered at the rates estimated. Furthermore, resource and reserve estimates may change over time as new information becomes available, particularly actual production data, further drilling and market factors. Failure of the Project Group to achieve its production estimates could have a material and adverse effect on any or all of its future cash flows, profitability, results of operations and financial condition and result in write-downs of the Project Group's investment in mining properties and increased amortization charges may be required. These production estimates are dependent on, among other things, the accuracy of mineral reserve and resource estimates, the accuracy of assumptions regarding ore grades and recovery rates, ground conditions (including hydrology), physical characteristics of ores (such as hardness), the presence or absence of particular metallurgical characteristics and the accuracy of estimated rates and costs of mining, ore haulage and processing. In addition, market fluctuations in the price of iron ore, as well as increased production costs or reduced recovery rates, may render certain mineral reserves and resources uneconomic and may ultimately result in a restatement of reserves, resources or both. Finally, while the Project Group can declare proved and probable reserves under JORC, presently the Project Group would likely not be permitted to declare proved and probable reserves under the SEC's Industry Guide 7. Before a mineral deposit can be classified as a reserve under Guide 7, it must be capable of being legally and economically extracted. Presently, the Project Group does not have full tenure and authorizations in respect of the Project to legally and economically extract and produce the ore, although the Project Group is working to put the tenure and authorizations in place. In addition, the SEC is more restrictive on pricing methodologies applied to determine reserves than under JORC.

***Insurance coverage held by the Project Group does not cover all of the potential losses, liabilities and damage related to the Project and certain risks are uninsured or uninsurable.***

Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, ground or slope failures, fires, floods, earthquakes, cyclones and other environmental occurrences, that could result in damage to or destruction of mineral properties or producing facilities, personal injury or death, environmental damage, delays in mining caused by industrial accidents or labor disputes or changes in regulatory environment, monetary losses and possible legal liability. It is not always possible to obtain insurance against all such risks and the Project Group may decide not to insure against certain risks because of high premiums associated with insuring against those risks or other reasons. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Project Group or to other companies in the mining industry on acceptable terms. Although the Project Group maintains insurance to protect against certain risks in such amounts as it considers reasonable in light of the circumstances surrounding such risks, its insurance will not cover all potential risks associated with its operations and insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Should such liabilities arise, it could result in increasing costs and FMG Finance's inability to pay interest and principal when due on the Senior Secured Notes, or at all.

***The Project Group is subject to product risks.***

While there has been metallurgical testing of the Project's iron ore from samples taken across the Mine Plan Tenements, by its very nature mineralization is not homogenous and the samples may not be representative of the broader ore body. The sinter test work conducted to date has been on samples which have been determined by Fortescue and the Project Group to be representative of the ore body but there is a risk that this may not be the

case. If the ore does not perform as indicated under the trials conducted this may affect the saleability of the product and Fortescue and the Project Group may be required to apply discounts to the Project Group's prices, which may in turn adversely impact on the Project Group's revenue estimates.

If the ore chemistry is materially different to that of the drilling and assay data it may fall outside of the specifications under the Offtake Agreements. Notwithstanding that the majority of Offtake Agreements have tolerance levels within the delivery specifications, there is a risk that some of the ore included within the reserve estimate may not meet market requirements. This could result in a discount to the prices received under the off take agreements and could ultimately result in the agreements being voided.

***Actual results for the Project Group could differ from the Base Case Model and other estimates contained in this offering memorandum.***

The Base Case Model and other estimates relating to the Project contained elsewhere in this offering memorandum are based on certain assumptions and estimates contained in the Definitive Feasibility Study, the cost control estimates and the construction plan. These estimates and assumptions are inherently subject to significant uncertainties, and the actual results may differ materially. Experience from actual mining, processing and related infrastructure operations may identify new or unexpected conditions that could reduce production below, or increase capital or operating costs above, current estimates for the Project. In addition, the Project Group could change its plans for the operation of the Project from what is contemplated in the Definitive Feasibility Study, the cost control estimates and the construction plan.

The actual results of operations for the Project may vary from the Base Case Model, which is based on certain assumptions and estimates and such variations may be material. In addition, the degree of uncertainty increases with each successive period presented. The Base Case Model has not been prepared in compliance with the published guidelines of the American Institute of Certified Public Accountants. The Base Case Model has been prepared by the Project Group based on operating cost and capital cost estimates at such time and present management's estimate of the Project Group's operating data, revenue and net income for each of the calendar years in the eight year period ending 2013. The Project Group does not intend to update or otherwise revise the Base Case Model to reflect future events or circumstances. The Base Case Model should not be relied upon for any purpose following the consummation of the offering contemplated by this offering memorandum.

If actual results are less favorable than the Base Case Model or the estimates and assumptions contained in the Definitive Feasibility Study, the cost control estimates and the construction plan turn out to be inaccurate, the commercial viability and future results of the Project could be materially and adversely affected. The Project Group cannot assure you that cash flow derived from operations will be sufficient to pay, when due, the principal of and interest on the Senior Secured Notes.

***Mining and construction operations are subject to extensive regulations, including environmental, health and safety, taxation, land access and other regulations.***

Mining and construction operations in Australia are subject to a variety of general and industry-specific regulations concerning the environment, the health and safety of employees, land access, infrastructure creation and access, royalties, taxation, accounting policies and other matters. In addition, certain types of operations require the design and use of mining and construction methods and equipment, submission of impact statements and approval thereof by government authorities. For instance, the Project Group will be required to rehabilitate the lands that the Project Group mines in accordance with applicable environmental conditions, laws and regulations. Estimates of the Project's ongoing rehabilitation costs, which are principally incurred as mining progresses, are significant and based principally on current legal and regulatory requirements that may change materially. Compliance with such laws may cause delays or require capital outlays in excess of those anticipated, causing an adverse effect on the Project. Additionally, if these laws and regulations were to change and if, as a result, material additional expenditure were required to comply with such new laws and regulations, this could

adversely affect the Project and the financial condition of the Project Group, including FMG Finance's ability to pay interest and principal on the Senior Secured Notes. Changes in laws and regulations may result in restrictions or delays in the development of the Project, significant additional costs or the Project becoming uneconomic.

Further, a breach of the regulations to which the Project Group is subject may result in the imposition of fines and penalties or the suspension or closure of mining operations or associated infrastructure. Certain laws and regulations are evolving in a manner that may mean stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. In addition, the Project Group cannot assure you that, despite precautions, breaches of such regulations, whether inadvertent or not, or consequences of the Project Group's activities such as environmental pollution, will not subject it to liability that would materially or adversely affect the financial condition and results from operations of the Project and consequently, the ability of FMG Finance to pay interest and principal when due on the Senior Secured Notes.

***The Project Group is subject to exchange rate risks.***

The assets, earnings and cash flow of the Project Group are influenced by movements in exchange rates of the U.S. dollar against the Australian dollar. Revenue from iron ore sales and the majority of financing for the Project will be denominated in U.S. dollars, providing a natural exchange rate hedge. However, a significant portion of the construction, development and operating expenses for the Project will be incurred in Australian dollars. Accordingly, appreciation of the Australian dollar against the U.S. dollar, without offsetting improvement in U.S. dollar denominated iron ore prices, could adversely affect the Project's profitability and financial position.

The Project Group will have currency exposure in both the procurement of capital equipment for the construction phase and in the sale of iron ore, as the international iron ore trade is generally denominated in U.S. dollars.

**Risks Relating To the Iron Ore Industry**

***Competition activities by our principal competitors can adversely affect the Project.***

The supply of seaborne iron ore to the global market is denominated by three major suppliers, BHP Billiton, Rio Tinto and CVRD. There are high barriers to entry for potential new entrants into this market due to the significant capital costs required to commence mining operations to scale and to construct the infrastructure facilities to deliver iron ore to the market. The major competitors all have substantial existing infrastructure, less leverage and substantially greater financial resources than new entrants, such as Fortescue, would have. As a result, the major players generally have a greater capacity to respond to competitive pressures and market dynamics in the seaborne iron ore market. There can be no assurance that Fortescue or the Project will be able to successfully respond to such competitive pressures or the competitive activities of the other major suppliers in its markets.

***Decreases in iron ore prices may affect the profitability and financial position of the Project Group.***

Iron ore prices have recently reached the highest levels seen in the global iron ore market since the 1970s and the current prices may not be sustainable. If the market prices for iron ore fall below the production costs for the Project and remain at such levels for any sustained period of time, it may not be economically feasible to commence or continue production. Such conditions would materially and adversely affect production, earnings and the financial position of the Project Group. The Project Group may, depending on hedging practices, experience losses. If the price of iron ore drops significantly or over an extended period, in addition to adversely affecting the Project Group's anticipated revenues from the sale of iron ore, the economic prospects of the Project could be significantly reduced. Such conditions could result in the cessation of mining activities that become uneconomic, halt or delay the development of new areas to mine, and reduce funds available for proving

reserves, resulting in the depletion of reserves. There is no assurance that, even as commercial quantities of iron ore are produced, a profitable market will exist for it. Factors that tend to put downward pressure on the price of iron ore include:

- a sustained weakening of the Chinese economy;
- industrial and retail supply and demand, exchange rates, inflation rates, changes in global economies, confidence in the global monetary system, forward sales of iron ore and steel by producers and speculators as well as other global or regional political, social or economic events; and
- consolidation in the steel industry, leading to a weaker position for iron ore suppliers in price negotiations.

A decline in the market price of iron ore may also require the Project Group to write down its mineral reserves and resources, which would have a material and adverse effect on the Project's earnings and financial condition.

***The Offtake Agreements carry certain contractual, counterparty and market risks.***

Fortescue and the Project Group have entered into 28 agreements to supply iron ore produced from the Project. Although the agreements are binding, more detailed versions of 18 of the agreements are expected to be entered into before commencement of the first ore shipment. The other 10 agreements provide that a fuller, more detailed agreement will be negotiated if required. These clauses were included primarily to allow shipping details to be added when they are more clearly known by the customer.

Twenty-four of the agreements are conditional upon completion of all arrangements for commencement of construction of the Project in calendar year 2006. In respect of 18 of the agreements, this condition may be waived by Fortescue or the Project Group and in respect of the other six agreements, if the condition is not met, the parties agree to use their best endeavours to negotiate an agreement on substantially the same terms. Additionally, all of these agreements are with Chinese entities, heightening the sensitivity of the Project to the fluctuations of the Chinese economy and Chinese economic policies. Information on many of these Chinese counterparties is not publicly available.

The failure of any of the purchasers to purchase iron ore in accordance with the terms of the contracts could result in a loss of revenue if Fortescue or the Project Group are unable to sell that iron ore to other purchasers. If Fortescue or the Project Group are unable to satisfy conditions in the contracts or secure binding contracts with customers, the results of operations and financial condition of Fortescue or the Project Group and the ability of FMG Finance to pay principal and interest on the Senior Secured Notes could be materially adversely affected.

***Reliance upon the Chinese market may negatively impact the results of the Project Group in the event of a slowdown in Chinese consumption.***

The Chinese market has become a significant source of global demand for seaborne iron ore. Chinese demand for iron ore has increased markedly during the last five years, but this rate of growth in demand is expected to moderate as the Chinese government pursues measures to manage economic overheating and to increase capital efficiency. While the recent increase in Chinese demand implies a considerable business opportunity, the Project Group's exposure to China's economic position and economic policies is significant. Global demand for iron ore led by increased Chinese demand has, in recent periods, resulted in higher prices for the products the Project Group intends to produce. If Chinese economic growth slows, it could result in lower prices and demand for the products of the Project Group, and therefore reduce the Project Group's revenues and earnings.

***The Project Group competes with mining and other companies for key human resources, equipment and supplies and its ability to develop the Project may be materially adversely affected by any unavailability of such resources.***

The strong commodity cycle and large numbers of projects being developed in the resources industry has led to increased demand for skilled personnel, contractors, materials and supplies. This has led, and could continue to lead, to increased capital and operating costs and difficulties in developing, acquiring and retaining skilled personnel and necessary equipment, which may in turn adversely affect the construction and development of the Project, the expansion of operations, the results of those operations, the financial condition and the prospects of the Project Group. For instance, there is currently some difficulty in securing truck tires given the increased activity in the resources sector. While the design of Fortescue's mining program substantially reduces the use of tired vehicles through the application of surface miners and conveying systems there may be a risk in sourcing tires for parts of its mining activities.

The Project Group relies on Fortescue's key personnel and the loss of key personnel may adversely affect the Project. To manage the Project properly, the Project Group must attract and retain additional highly qualified management, technical, sales and marketing personnel. The Project Group competes with mining and other companies to attract and retain key executives and other skilled employees and third party contractors with the appropriate technical skills and managerial experience necessary to construct and operate the Project. Some of these companies are significantly larger than the Project Group and may have greater resources to invest in attracting and retaining employees. Historically, peak economic conditions in the resources industry in Western Australia have contributed to a significant shortage of skilled labor in the professions of mine engineering, metallurgy, geology and geotechnical disciplines. Similarly, the greater resources and more secure credit of the Project Group's main competitors in the Pilbara give them advantages in negotiating with contractors and for the supply of materials and equipment. Competition with other mining companies for these resources could have a material adverse affect on the Project Group's business and may impact Project completion.

There can be no assurance that the Project Group will be able to attract and retain skilled and experienced employees or secure necessary supplies and equipment for the Project. Should the Project Group lose any of the Project Group's key personnel, fail to attract qualified personnel or fail to secure necessary equipment and materials, the Project may be materially and adversely affected.

#### **Risks Relating to the Senior Secured Notes**

***The substantial level of indebtedness of the Project Group may adversely affect the financial condition of the Project Group and prevent FMG Finance from fulfilling its obligations under the Senior Secured Notes.***

Following the Offering, the Project Group will have substantial financial indebtedness and debt service obligations. The Project Group cannot assure you that it will have sufficient cash flow to pay the interest expenses or principal associated with the Senior Secured Notes.

The degree to which the Project Group is leveraged could have important adverse consequences to holders of the Senior Secured Notes including the following: (i) the ability of the Project Group to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes will be limited; (ii) a significant portion of the expected cash flow from operations of the Project will be required to be dedicated to the payment of interest on the Senior Secured Notes, thereby reducing the funds available to the Project Group for other purposes, including operation and future mining development of the Project; (iii) the Project Group is more leveraged than the Project Group's competitors, which might place the Project Group at a competitive disadvantage; (iv) the Project Group may be hindered in its ability to adjust rapidly to changing market conditions; and (v) the Project Group's significant degree of leverage could make the Project Group more vulnerable in the event of a downturn in general economic conditions or in the Project Group's business.

The Project Group's ability to meet the Project Group's debt service obligations and to reduce the Project Group's total indebtedness will depend upon the Project Group's future performance, which will be subject to

general economic conditions and to financial, business and other factors affecting the Project, many of which are beyond the Project Group's control. The Project Group cannot assure you that the Project Group's business will be able to generate cash flow at levels sufficient to satisfy the Project Group's debt service requirements. If in the future the Project Group is unable to generate sufficient cash from the Project to make scheduled interest payments on the Senior Secured Notes, to pay the Senior Secured Notes at maturity, or to meet other obligations and commitments, the Project Group will be required to adopt one or more alternatives, such as refinancing or restructuring the Project Group's indebtedness, reducing or delaying planned expansion, selling assets or seeking to raise additional debt or equity capital. The Project Group cannot assure you that any of these alternatives could be effected on a timely basis or on satisfactory terms or at all. In addition, the terms of existing or future debt agreements, including the indentures governing the Senior Secured Notes, may prohibit the Project Group from adopting some of these alternatives.

***The requirement to repurchase the Senior Secured Notes following a change of control may discourage a takeover of the Project or Fortescue.***

The Project Guarantors' obligation to repurchase the Senior Secured Notes upon a change of control may make more difficult or discourage a takeover of Fortescue, whether favored or opposed by the management of Fortescue. Consummation of any such transaction in certain circumstances may require the redemption or repurchase of Senior Secured Notes, and the Project Group cannot assure you that Fortescue or the acquirer will have sufficient financial resources to effect such a redemption or repurchase. Such restrictions and the restrictions on transactions with affiliates may, in certain circumstances, make more difficult or discourage a leveraged buyout of Fortescue or any of its subsidiaries by the management of Fortescue. While such restrictions cover a wide variety of arrangements that have traditionally been used to effect highly leveraged transactions, the indenture may not afford the holders protection in all circumstances from the adverse aspects of a highly leveraged reorganization, restructuring, merger or similar transaction.

The exercise by the holders of the Senior Secured Notes of their right to require the Project Group to repurchase the Senior Secured Notes could cause a default under the Project Group's outstanding indebtedness and accelerate the outstanding amounts due and payable, even if the change of control itself does not.

***Certain limitations on remedies and other claims with priority over claims of holders of Senior Secured Notes could adversely affect the rights as a security holder in insolvency proceedings.***

Some of the Project Group's assets consist of rights arising under contracts which are material to the operation of the Project. Certain of these contracts contain restrictions on assignment and require consent of the counterparty before a valid assignment may be effected. The Project Group is in the process of seeking consents from certain counterparties acknowledging the security rights of the Collateral Trustee to enforce security over certain material contracts in accordance with agreed cure rights in the form of a contract specific side letter executed by all relevant parties. To the extent consent cannot be obtained, security over certain contracts may not be effective or the ability to assign on enforcement may be restricted by the need for consent.

It is likely that a receiver might also seek to sell the relevant mining tenements and operations substantially as a whole operation in order to maximize proceeds realized therefrom. However, the ability of a receiver to elicit purchasers for any assets which are subject to the security or the price obtained upon sale or transfer may be limited or affected by termination rights under the material contracts. Furthermore, the persons to whom a sale or transfer could be made may be limited by various Australian statutes such as the Trade Practices Act (Australia's antitrust legislation) and the Foreign Acquisitions and Takeovers Act, which places restrictions upon foreign persons owning certain assets and shares of Australian corporations.

The right of the Collateral Trustee to enforce and sell the Collateral upon the occurrence of a default will be subject to limitations under applicable laws. For example, in the event of a voluntary administration, some or all of the Collateral Trustee's enforcement rights may be affected.

Finally, under applicable law, in certain circumstances other claims may have priority over the claims of secured creditors (including the holders of Senior Secured Notes) including claims of prior registered secured creditors and claims of other secured creditors of which the secured creditors have notice.

***It is not certain that an active trading market will develop for the Senior Secured Notes.***

Prior to this Offering, there was no public market for the Senior Secured Notes. The Project Group has been informed by the initial purchasers that they intend to make a market in the Senior Secured Notes after this Offering is completed. However, the initial purchasers may cease their market making activities at any time. In addition, the liquidity of the trading market in the Senior Secured Notes, and the market price quoted for the Senior Secured Notes, may be adversely affected by changes in the overall market for high yield securities and by changes in the Project Group's financial performance or prospects or in the financial performance or prospects of companies in the Project Group's industry generally. As a result, the Project Group cannot assure you that an active trading market will develop or be maintained for the Senior Secured Notes. If an active market does not develop or is not maintained, the market price and liquidity of the Senior Secured Notes may be adversely affected.

***The future prevailing market price of the Senior Secured Notes is subject to uncertainty.***

The prevailing market price of the Senior Secured Notes can fluctuate widely in response to a variety of factors including, without limitation:

- Project development problems, including cost over-runs, grade problems, loss of key employees and other operating issues;
- mine production problems;
- actual or anticipated variations in the Project Group's periodic operating results;
- volatility of iron ore prices;
- relative changes in foreign exchange rates;
- the impact of significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Project Group or the Project Group's competitors;
- international bond market conditions;
- changes in government regulations or in fiscal, monetary and regulatory policies (such as environmental and land management and interest rates); and
- geo-political conditions such as acts or threats of terrorism or military conflicts.

These and other factors could cause the prevailing market price of the Senior Secured Notes to decrease, including decreases below the prices established for this Offering.

***Restrictions and covenants in the Indenture will limit the ability of the Project Group to take certain actions and impose consequences in the event of a failure to comply.***

The Indenture will contain financial and operating covenants that will limit the discretion of management with respect to certain business matters. These covenants will restrict the Project Group's ability to incur additional indebtedness, which may limit the Project Group's ability to finance any additional capital expenditure for the Project that may be necessary or appropriate once the Project has been completed and to finance additional exploration and development activities. These covenants will also place significant restrictions on, among other things, the Project Group's ability to create liens or other encumbrances, to make certain payments and investments, and to sell or otherwise dispose of assets and merge or consolidate with other entities. See "Description of the Senior Secured Notes." A failure to comply with the obligations contained in the Indenture

could result in an event of default under the Indenture which could permit acceleration of the related debt and acceleration of debt under other instruments that contain cross acceleration or cross default provisions.

***The Project Group cannot assure you that the proceeds from the sale of the Collateral securing the Senior Secured Notes would be sufficient to satisfy the amounts due on the Senior Secured Notes in the event of a default.***

The obligations of FMG Finance under the Senior Secured Notes are primarily secured by fixed and floating charges over the assets of the Project Group and share mortgages over shares in the Project Group.

The obligations of FMG Finance under the Senior Secured Notes are not secured by any substantive security over the assets of Fortescue, IBP or FMG Pilbara Pty Ltd (other than specific limited charges or share mortgages of shares held by those entities in the Project Group). In addition, there is no security over tenements owned by Chichester which are not associated with the Project. Furthermore, some of the security (for example, in respect of the Port Lease and some of the material licenses) is not able to be given until after the relevant documents have been entered into (for example, the Port Lease is executed and the material licenses are issued).

The Project Group cannot assure you that the proceeds of any sale of the Collateral following a default would be sufficient to satisfy payments due on the Senior Secured Notes. If such proceeds were not sufficient to repay all such amounts due on the Senior Secured Notes, then holders of Senior Secured Notes (to the extent not repaid from the proceeds of the sale of the Collateral) would have only an unsecured claim against the Project Group's remaining assets. The Project Group cannot assure you that the Project Group's remaining assets would be sufficient to satisfy all unsecured claims in full or that any such other assets would exist. The value of such Collateral in the event of a liquidation will depend on market and economic conditions, the availability of buyers and other factors beyond the Project Group's control and no assurance can be given that holders of Senior Secured Notes will be able to realize the fair market value of their interest in the Collateral. In addition, to the extent that the holders of Senior Secured Notes are unsecured, under the Corporations Act, certain debts and claims must be paid in priority to other unsecured debts and claims (for example, costs and expenses of a liquidator and certain payments to employees).

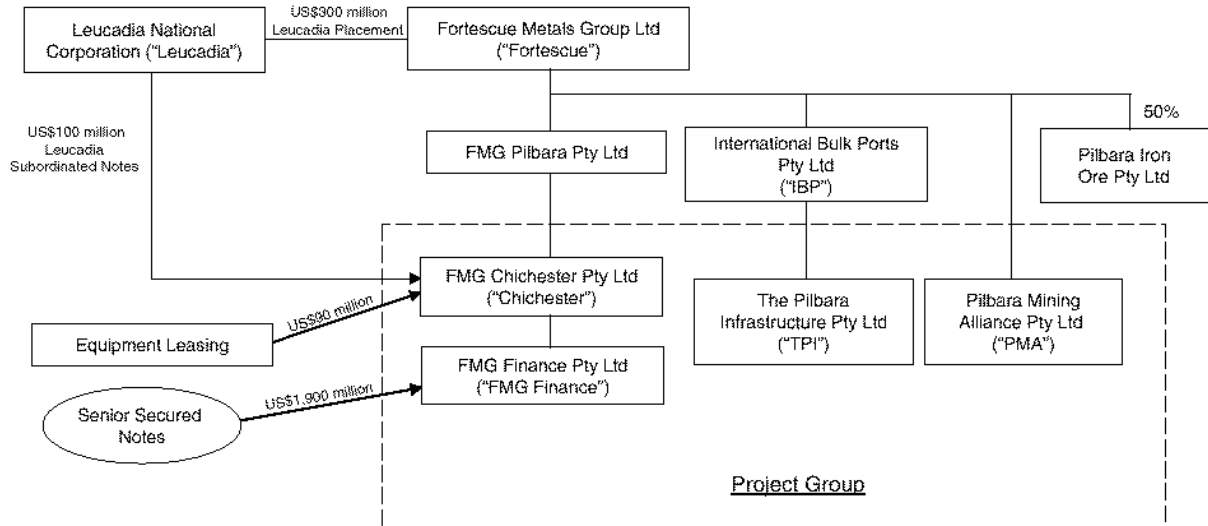
The priority of the security interests securing the claims of Senior Secured Note holders will be determined by, among other things, the time of perfection of a security interest in that item and the existence of prior security interests. Furthermore, certain workers' liens may, as a matter of law, have priority over the security interests granted to the Collateral Trustee for the benefit of the Senior Secured Note holders. The Indenture and the Collateral Trust Deed also permit certain amounts of additional indebtedness to be secured by the same security granted in favor of the Senior Secured Note holders. If additional indebtedness is incurred, the lenders of that additional indebtedness would rank *pari passu* with the holders of the Senior Secured Notes.

The Project Group does not believe there are any material existing prior liens on the Collateral securing claims of persons other than holders of the Senior Secured Notes. However, the Project Group cannot assure you that future additional prior claims will not arise by reason of applicable law or that a court would not enforce claims in a manner that is disadvantageous to the holders of the Senior Secured Notes.



## CORPORATE STRUCTURE

The following chart sets forth the corporate organization of the Project Group. This chart does not display all entities in the Fortescue group and is presented solely for the reader's convenience.



Note: After paying all amounts due under the Bridge Loan with proceeds from the Leucadia Placement, Fortescue will loan the remaining net proceeds from the Leucadia Placement, along with all funds drawn under the Bridge Loan but not spent, to the Project Group on a subordinated basis. In addition, on or before the closing of the Offering, Fortescue will make a subordinated loan of A\$183 million to the Project Group. This amount represents exploration and evaluation expenditure made and capitalized by Fortescue relating to the Project.

FMG Finance was incorporated in March 2006 under the Corporations Act to act as a special purpose finance company to raise debt funding to develop the Project. The Project is being developed through FMG Finance, Chichester and TPI, all of which are subsidiaries of Fortescue. Chichester owns the mining tenements that form the basis of the Project. TPI will construct a railway and new port facility to provide transport and shiploading services for the Project.

Except for incidental costs in respect of maintenance of its corporate existence, upon completion of the Offer, FMG Finance will have no external liabilities other than in respect of the Senior Secured Notes. FMG Finance's business address is Level 2, 87 Adelaide Terrace, East Perth, Western Australia 6004, Australia. All of the shares in FMG Finance are held by Chichester. Chichester is a subsidiary of Fortescue that was incorporated in May 2004 under the Corporations Act. Chichester owns the Mine Plan Tenements and a number of mining tenements other than the Mine Plan Tenements, which will not be included as collateral for the Senior Secured Notes for the Project. TPI is a subsidiary of Fortescue that was incorporated in December 2002 under the Corporations Act. TPI does not own any material assets other than its interest in the Project. PMA is a subsidiary of Fortescue that was incorporated in June 2006 under the Corporations Act for the purpose of entering into the Pilbara Mining Alliance Agreement with Roche.

Fortescue owns a 50% interest in Pilbara Iron Ore Pty Ltd, which owns all but one of the Mindy Mindy tenements in the Pilbara region. This company is not part of the Project Group.

## PROJECT FINANCING PLAN

The table below summarizes the estimated Project financing costs and the projected sources of capital.

<u>Sources of Funds</u>	<u>A\$<sup>(1)</sup></u>	<u>US\$<sup>(1)</sup></u>	<u>Application of Funds</u>	<u>A\$<sup>(1)</sup></u>	<u>US\$<sup>(1)</sup></u>
	(in millions)			(in millions)	
<b>Debt</b>			<b>Project Capital</b>		
Senior Secured Notes . . . . .	2,560	1,900	Feasibility capital expenditure <sup>(3)</sup> . .	183	136
Operating Leasing <sup>(2)</sup> . . . . .	121	90	Repayment of Bridge Loan <sup>(6)</sup> . . . . .	202	150
			Infrastructure <sup>(7)</sup> . . . . .	1,522	1,130
<b>Equity and Subordinated Debt</b>			Mining <sup>(8)</sup> . . . . .	550	408
Sponsor Equity <sup>(3)</sup> . . . . .	183	136	Working Capital <sup>(9)</sup> . . . . .	187	139
Leucadia Placement . . . . .	404	300			
Leucadia Subordinated Notes . . . . .	135	100	<b>Contingencies</b>		
			Cost Overrun Reserve Account . . .	300	223
<b>Other Sources</b>			Risk provision contingency <sup>(10)</sup> . . . .	198	147
Interest on proceeds on deposit <sup>(4)</sup> . . . .	175	130	<b>Financing Related Costs</b>		
Initial production <sup>(5)</sup> . . . . .	109	81	Debt Service Reserve		
			Account <sup>(11)</sup> . . . . .	461	342
			Fees <sup>(12)</sup> . . . . .	84	62
	<u>3,687</u>	<u>2,737</u>		<u>3,687</u>	<u>2,737</u>

- (1) Translation between U.S. dollars and Australian dollars at an exchange rate of US\$1.00 = A\$0.7423.
- (2) Operating lease facilities to be used to finance mining equipment. Fortescue may increase the amount of operating leasing and reduce the amount of Senior Secured Notes if it receives further lease commitments prior to pricing of the Offering. Additional operating lease facilities, if committed prior to pricing of the Offering, may be utilized to finance other equipment such as locomotives and rolling stock.
- (3) Represents the funds spent by Fortescue and the Project Group on the Project through June 30, 2006.
- (4) Interest expected to be earned on the proceeds of the Leucadia Placement, Leucadia Subordinated Notes and the Senior Secured Notes during the construction period at the forecast rate of 5.5% per annum.
- (5) Represents approximately 50% of the net iron ore proceeds (less operating expenses) from initial production earned during the five months post first shipment between February and June 2008 while construction capital is still being spent.
- (6) Bridge Loan drawn to US\$150 million will be repaid at the closing of the Offering.
- (7) Represents total infrastructure cost to be spent and funded of A\$1,724 million (A\$1,922 million, which includes a design growth allowance of A\$51 million, less A\$198 million risk provision contingency), less A\$46 million funded by the Bridge Loan and spent prior to June 30, 2006, less remaining cash from drawings under Bridge Loan of A\$156 million.
- (8) Mining includes A\$325 million for the crushing and screening plant plus A\$225 million for the initial mining fleet.
- (9) Working capital to fund operational expenditure during the construction and initial production period.
- (10) Represents the risk provision contingency determined on a contract-by-contract basis and designed to capture four risk criteria: duration risk, which relates to construction delay; contract risk, which relates to the likelihood of unforeseen variation under each contract; industrial relations risk; and wet weather risk.
- (11) Cash to be applied to the Debt Service Reserve Account to cover the cost of interest payments for the Senior Secured Notes for the first two years following closing of the Offering.
- (12) Fees and expenses including financial advisory, legal and underwriting associated with the Leucadia transactions and the Offering of the Senior Secured Notes.

## CAPITALIZATION

The following table sets forth, in accordance with Australian equivalents to International Financial Reporting Standards (“AIFRS”): (i) consolidated cash, short-term debt, long-term debt and total capitalization of Fortescue, as of June 30, 2006 and (ii) consolidated cash, short-term debt, long-term debt and total capitalization of Fortescue as adjusted after giving effect to additional borrowings of US\$100 million under Fortescue’s Bridge Loan in July 2006, the Offering, the Leucadia transactions and the application of the net proceeds as if the transactions had occurred on June 30, 2006. As discussed under “Leucadia Transactions”, the proceeds of the Leucadia transactions will be used to repay the Bridge Loan and to fund construction costs of the Project.

	June 30, 2006			
	Fortescue (consolidated)		As Adjusted	
	(in thousands)			
	A\$	US\$	A\$	US\$
Cash .....	18,054	13,401		
Short-term debt .....	—	—		
Long-term secured debt				
Bridge Loan .....	67,268	49,933		
Fixed Rate Notes .....	—	—		
Floating Rate Notes .....	—	—		
Leucadia Subordinated Notes .....	—	—		
<b>Total indebtedness</b> .....	<b>67,268</b>	<b>49,933</b>		
Shareholders’ equity				
Issued capital .....	147,153	109,232		
Leucadia Placement .....	—	—		
Reserves .....	2,907	2,158		
Accumulated losses .....	(12,954)	(9,616)		
<b>Total shareholders’ equity</b> .....	<b>137,106</b>	<b>101,774</b>		
<b>Total capitalization and     indebtedness<sup>(1)</sup></b> .....	<b>A\$204,374</b>	<b>US\$151,707</b>	<b>A\$</b>	<b>US\$</b>

(1) Total capitalization and indebtedness includes short-term debt, long-term debt and shareholders’ equity.

The following table sets forth, in accordance with AIFRS: (i) cash, short-term debt, long-term debt and total capitalization of each of Chichester, TPI and the Project Group (pro forma) as of June 30, 2006 and (ii) cash, short-term debt, long-term debt and total capitalization of the Project Group as adjusted after giving effect to a shareholder subordinated loan of A\$183 million from Fortescue, the Offering, the Leucadia transactions and the application of the net proceeds of the Senior Secured Notes as if the issuance had occurred on June 30, 2006. As discussed under “Use of Proceeds”, the proceeds of the Offering will be for the construction costs of the Project.

	June 30, 2006			
	Combined Project Group <sup>(1)</sup>		As Adjusted	
	(in thousands)			
Cash <sup>(2)</sup> .....	A\$ 0	US\$ 0	A\$	US\$
Short-term debt .....	—	—	—	—
Long-term secured debt				
Fixed Rate Notes .....	—	—		
Floating Rate Notes .....	—	—		
Leucadia Subordinated Notes .....	—	—		
<b>Total indebtedness</b> .....	—	—		
Shareholders' equity				
Issued capital <sup>(2)</sup> .....	0	0		
Unsecured shareholder subordinated loan <sup>(3)</sup> .....	609	452	183,000	135,840
Unsecured shareholder subordinated loan <sup>(4)</sup> .....	—	—		
Reserves .....	—	—		
Accumulated losses .....	—	—		
<b>Total shareholders' equity</b> .....	609	452		
<b>Total capitalization and     indebtedness<sup>(5)</sup></b> .....	<u>A\$609</u>	<u>US\$452</u>	<u>A\$</u>	<u>US\$</u>

(1) Combined Project Group shows the capitalization for the Project Group on a pro forma basis.

(2) The Project Group (pro forma) had cash and issued capital of A\$4 (US\$3) at June 30, 2006.

(3) On or before the closing of the Offering, Fortescue will make a subordinated loan of A\$183 million to the Project Group. This amount represents exploration and evaluation expenditure made and capitalized by Fortescue relating to the Project.

(4) After paying all amounts due under the Bridge Loan with proceeds from the Leucadia Placement, Fortescue will loan the remaining net proceeds from the Leucadia Placement, along with all funds drawn under the Bridge Loan but not spent, to the Project Group on a subordinated basis.

(5) Total capitalization and indebtedness includes short-term debt, long-term debt and shareholders' equity.

The Project Group intends to enter into a number of operating leases for specific categories of mining equipment. The estimated value of the assets that are subject to the operating leases is US\$90 million and, as operating leases, will not be reflected on the balance sheet of Fortescue or the Project Group.

These tables should be read in conjunction with “Project Financing Plan,” “Base Case Model,” “Selected Consolidated Historical Financial Information,” “Other Funding Arrangements”, the financial statements and other information appearing elsewhere in this offering memorandum.

## BASE CASE MODEL

### General

The management of Fortescue and FMG Finance has prepared the unaudited financial projections set forth herein (the “Base Case Model”) to assist potential investors in understanding its anticipated financial results from operations of the Project Group for the calendar years ended December 31, 2006 through December 31, 2013. The Base Case Model represents management’s current best assumptions and estimates as of July 2006, and its anticipated results of operations for each of the years in the calendar year period ended December 31, 2013. The Base Case Model was not prepared with a view toward compliance with published guidelines of the SEC or the guidance established by the American Institute of Certified Public Accountants or U.S. generally accepted accounting principles. In addition, BDO Chartered Accountants & Advisers, independent accountants for the Project Group, have not examined, reviewed, compiled, or applied agreed upon procedures to the Base Case Model and, accordingly, assume no responsibility for and disclaim any association with the Base Case Model. Fortescue engaged BDO Consultants (WA) Pty Ltd (“BDO Consultants”) to review and provide an agreed-upon-procedures report on the Base Case Model. BDO Consultants reported that nothing came to their attention in the course of their review that led them to believe that (1) the logic and mathematical formulae in the various calculations are not materially correct; (2) the output of the Base Case Model is not materially correct given the assumptions and calculation methodology used; (3) the Base Case Model has not been constructed appropriately so as to materially achieve its objective under the assumptions provided; (4) the Base Case Model does not accurately reflect the project structure; and (5) the key accounting assumptions in the Base Case Model are not materially consistent with their understanding of AIFRS. BDO Consultants has not independently verified the information and assumptions included in the Base Case Model, nor have they conducted anything in the nature of an audit of Fortescue or the Base Case Model.

The Base Case Model should be read together with the information contained in “Cautionary Note Regarding Forward-Looking Statements”, “Risk Factors”, “Project Financing Plan”, “Selected Consolidated Historical Financial Information”, “Management’s Discussion and Analysis”, “Business” and the consolidated financial statements of the Project Group included elsewhere in this offering memorandum.

Subject to the continuous disclosure rules of the SGX-ST Listing Rules and any obligation under the Singapore Securities and Futures Act to issue a supplementary or replacement offering memorandum, the Project Group does not intend to update or otherwise revise the Base Case Model to reflect circumstances existing after its preparation, or to reflect the occurrence of unanticipated events even if any or all of the underlying assumptions are not realized or to publish projected financial information in the future. Furthermore, the Project Group does not intend to update or revise the Base Case Model to reflect changes in general economic or industry conditions. The Base Case Model should not be relied upon for any purpose following consummation of the Offer.

For additional assumptions on which the Base Case Model is based, see “—Summary of Significant Assumptions for the Base Case Model”. All assumptions and the Project Group’s current and future businesses and operations are subject to a number of uncertainties. See “Risk Factors”.

### Limitations of the Base Case Model Information

The Base Case Model is based on a number of estimates and assumptions that, while presented with numerical specificity and considered reasonable by the Project Group’s management, are inherently subject to significant business, economic, competitive, regulatory and other uncertainties and contingencies, all of which are difficult to predict and many of which are beyond the Project Group’s control, and on estimates and assumptions with respect to future business decisions that are subject to change. The assumptions disclosed herein are those that the Project Group believes are significant to the Base Case Model and reflect management’s judgment as at the date hereof. The Base Case Model is necessarily speculative in nature and it is usually the case that one or more of the assumptions do not materialize. Not all assumptions used in the preparation of the Base Case Model have been set forth herein.

The actual results achieved during the projected periods may vary from those set forth in the Base Case Model, and those variations may be material. As disclosed elsewhere in this offering memorandum under “Risk Factors”, the Project Group’s business and operations are subject to substantial risks which increase the uncertainty inherent in the Base Case Model. Many of the factors disclosed under “Risk Factors” in this offering memorandum could cause actual results to differ materially from those expressed in the Base Case Model. The Base Case Model assumes the successful implementation of the Project Group’s business strategy. No assurance can be given that the Project Group’s strategy will be effective, or that the anticipated benefits from the Project Group’s strategy will be realized in the period for which the Base Case Model has been prepared or ever.

*The inclusion of the Base Case Model herein should not be regarded as a representation by the Project Group or any other person that the Base Case Model will be achieved. Prospective purchasers are cautioned not to place undue reliance on the Base Case Model and should make their own independent assessment of the Project Group’s future results of operations, cash flows and financial condition.*

	Years Ending December 31,							
	2006	2007	2008	2009	2010	2011	2012	2013
<b>Product output sold</b>								
High Grade Lump (mt) . . . . .	—	—	—	4.50	6.00	7.26	7.83	9.00
High Grade Fines (mt) . . . . .	—	—	22.08	25.50	24.00	20.99	22.17	21.00
Super Value Fines (mt) . . . . .	—	—	11.75	15.00	15.00	15.00	15.00	15.00
<b>Prices<sup>(1)</sup></b>								
High Grade Lump (US\$/t)								
(at 97% of benchmark) . . . . .	49.11	50.01	46.54	41.32	35.92	33.42	33.70	34.63
High Grade Fines (US\$/t)								
(at 95% of benchmark) . . . . .	36.90	38.26	35.81	31.91	27.77	25.47	25.54	26.20
Super Value Fines (US\$/t)								
(at 90% of benchmark) . . . . .	34.09	35.34	33.08	29.47	25.65	23.53	23.60	24.20
<b>Revenue</b>								
High Grade Lump (US\$ million) . . . . .	—	—	—	180.0	215.5	242.7	263.8	311.6
High Grade Fines (US\$ million) . . . . .	—	—	790.4	818.0	666.4	534.5	566.4	550.1
Super Value Fines (US\$ million) . . . . .	—	—	388.0	442.1	384.7	352.9	353.9	363.0
Total Revenue (US\$ million) . . . . .	—	—	1,178.5	1,440.2	1,266.6	1,130.1	1,184.1	1,224.7
EBITDA (US\$ million) . . . . .	(20.8)	(71.8)	956.7	1,118.4	903.7	711.6	699.4	736.8
EBIT (US\$ million) . . . . .	(20.8)	(89.8)	868.1	1,020.5	803.1	610.3	598.1	635.5
<b>Cash flow available for debt service</b>								
(US\$ million) <sup>(2)</sup> . . . . .	<b>(365.1)</b>	<b>(1,039.6)</b>	<b>261.6</b>	<b>664.7</b>	<b>677.7</b>	<b>472.5</b>	<b>398.6</b>	<b>254.7</b>
EBITDA/Interest Expense (x) <sup>(3)(4)</sup> . . . . .			6.0	8.7	11.7	18.8	98.0	—
Lease Adjusted EBITDA/Interest Expense (x) <sup>(3)(4)</sup> . . . . .			5.7	7.9	10.1	10.8	16.9	—
EBITDA/Revenue . . . . .			81%	78%	71%	63%	59%	60%
Lease Adjusted EBITDA/Revenue . . . . .			83%	80%	75%	70%	66%	66%
Net Senior Debt/EBITDA . . . . .			1.1	0.6	0.2	—	—	—

(1) Prices are net of royalties payable to the State of Western Australia.

(2) Net iron ore sales proceeds and interest income less taxes, operating expenses and maintenance capital.

(3) Assumes all distributable cash, after the payment of interest on the Leucadia Subordinated Notes, is used to buy back Senior Secured Notes and deleverage the Project.

(4) Interest expense does not include interest on the Leucadia Subordinated Notes.

## Price Sensitivities of the Base Case Model

### CRU High Case Price Projected Financial Information

	Years Ending December 31							
	2006	2007	2008	2009	2010	2011	2012	2013
Revenue (US\$m) .....	—	—	1,302.8	1,735.6	1,645.0	1,512.3	1,479.2	1,531.0
EBITDA (US\$m) .....	(20.8)	(71.8)	1,081.1	1,413.8	1,282.1	1,093.8	994.5	1,043.1
EBIT (US\$m) .....	(20.8)	(89.8)	992.4	1,316.0	1,181.5	992.6	893.2	941.7
<b>Cash flow available for debt service (US\$m) .....</b>	<b>(365.1)</b>	<b>(1,039.6)</b>	<b>335.6</b>	<b>854.4</b>	<b>925.5</b>	<b>742.3</b>	<b>622.4</b>	<b>469.6</b>
EBITDA/Net Interest (x) .....			6.8	11.9	27.5	828.6	—	—
Lease Adjusted EBITDA/Net Interest (x) .....			6.5	10.6	21.0	31.8	27.5	—
EBITDA/Revenue .....			83%	81%	78%	72%	67%	68%
Lease Adjusted EBITDA/Revenue .....			84%	84%	81%	78%	73%	73%
Net Senior Debt / EBITDA .....			0.9	0.3	—	—	—	—

### CRU Low Case Price Projected Financial Information

	Years Ending December 31							
	2006	2007	2008	2009	2010	2011	2012	2013
Total Revenue (US\$m) .....	—	—	1,009.8	1,202.1	1,041.0	1,038.4	1,110.0	1,147.1
EBITDA (US\$m) .....	(20.8)	(71.8)	788.0	880.4	678.1	619.9	625.3	659.2
EBIT (US\$m) .....	(20.8)	(89.8)	699.4	782.5	577.5	518.6	524.1	557.2
<b>Cash flow available for debt service (US\$m) .....</b>	<b>(365.1)</b>	<b>(1,039.6)</b>	<b>154.1</b>	<b>504.4</b>	<b>529.4</b>	<b>416.7</b>	<b>357.5</b>	<b>192.3</b>
EBITDA/Net Interest (x) .....			4.9	6.4	6.2	7.1	9.6	—
Lease Adjusted EBITDA/Net Interest (x) .....			4.7	5.9	5.8	5.7	6.8	—
EBITDA / Revenue .....			78%	73%	65%	60%	56%	57%
Lease Adjusted EBITDA/Revenue .....			80%	76%	70%	67%	64%	64%
Net Senior Debt/EBITDA .....			1.5	1.1	0.9	0.6	0.2	—

## Summary of Significant Assumptions for the Base Case Model

### Introduction

As part of the program of work to establish technical and economic feasibility of the Project, the Project Group prepared a detailed mining schedule and projections for production, revenue and operating costs, created the Mine Feasibility Study and commissioned the Infrastructure Feasibility Study, the Cost Control Estimate and the Snowden Report. For certain assumptions, the Base Case Model uses information from the Definitive Feasibility Study, the cost control estimate and the Snowden Report. This use is subject to the express qualifications in respect of the Definitive Feasibility Study and its constituent elements as set out in "Risk Factors" and elsewhere in this offering memorandum, and also the disclosures, qualifications and assumptions set out in each of the Infrastructure Feasibility Study and the Mine Feasibility Study and in relation to the cost control estimate.

### Price Forecasts

The following price forecasts provided by CRU have been used as the basis for projected financial information:

	Years Ending March 31							
	2006	2007	2008	2009	2010	2011	2012	2013
<b>Base Case CRU Prices</b>								
Lump (US¢/dmton) .....	93.8	95.5	88.9	78.9	68.6	63.8	64.4	66.1
Fines (US¢/dmton) .....	73.5	76.2	71.3	63.6	55.3	50.7	50.9	52.2
<b>Upside Case CRU Prices</b>								
Lump (US¢/dmton) .....	93.8	100.7	98.2	94.9	89.1	85.8	80.4	82.7
Fines (US¢/dmton) .....	73.5	80.8	78.8	76.5	71.8	67.8	63.6	65.2
<b>Downside Case CRU Prices</b>								
Lump (US¢/dmton) .....	93.8	87.0	76.1	65.7	56.4	58.9	60.4	62.0
Fines (US¢/dmton) .....	73.5	69.8	61.1	53.0	45.5	46.6	47.7	48.9

\* Iron Ore is priced on Japanese fiscal years ending March 31 of each year

### Operating Expenditure

	Years Ending December 31							
	2006	2007	2008	2009	2010	2011	2012	2013
<b>Mining (A\$ million)</b>								
Contract Mining Charge .....	—	0.5	24.8	51.3	74.6	115.6	124.5	111.7
Mining Costs .....	9.2	53.7	108.8	183.0	200.7	255.7	333.7	355.0
Processing Costs .....	—	—	21.4	33.0	47.4	32.4	32.9	25.5
Other .....	18.6	44.7	—	—	—	—	—	—
<b>Infrastructure (A\$ million)</b>								
Fixed Costs .....	—	—	80.3	82.3	84.3	86.4	88.6	90.8
Variable Costs .....	—	—	81.6	111.2	114.0	112.3	119.8	122.8
<b>Total (A\$ million)</b> .....	<b>27.8</b>	<b>98.9</b>	<b>316.8</b>	<b>460.9</b>	<b>521.0</b>	<b>602.4</b>	<b>699.4</b>	<b>705.8</b>
A\$ : US\$ million <sup>(1)</sup> .....	0.7500	0.7250	0.7000	0.6983	0.6965	0.6948	0.6930	0.6913
<b>Total (US\$ million)</b> .....	<b>20.9</b>	<b>71.7</b>	<b>221.7</b>	<b>321.8</b>	<b>362.9</b>	<b>418.5</b>	<b>484.7</b>	<b>487.9</b>

(1) Source: CRU

\* All figures stated in nominal terms



## Base Case CRU Prices — EBIT to Cash Flow Available for Debt Service Reconciliation

	Years Ending December 31							
	2006	2007	2008	2009	2010	2011	2012	2013
EBIT (US\$ million) .....	(20.8)	(89.8)	868.1	1,020.5	803.1	610.3	598.1	635.5
Plus: Interest income .....	25.4	83.3	36.5	21.4	19.5	18.4	28.3	11.0
Less: Cash Tax .....	—	—	(139.1)	(275.8)	(225.3)	(177.3)	(184.0)	(192.2)
Less: Capital expenditure .....	(306.7)	(1,025.6)	(462.4)	(128.8)	(50.6)	(5.8)	(5.9)	(6.0)
Plus: Depreciation .....	—	18.0	88.6	97.9	100.6	101.2	101.3	101.3
Change in Working Capital .....	(63.0)	(25.5)	(130.1)	(70.4)	30.4	(74.4)	(139.1)	(294.9)
<b>Cash flow available for Debt (US\$ million) .....</b>	<b>(365.1)</b>	<b>(1,039.6)</b>	<b>261.6</b>	<b>664.7</b>	<b>677.7</b>	<b>472.5</b>	<b>398.6</b>	<b>254.7</b>

(1) Source: CRU

\* All figures stated in nominal terms

### *Royalties*

Management has assumed that annual royalties of 7.5% in respect of lump ore produced, 5.625% of the royalty value of fine ore produced and 5% of beneficiated ore will be payable to the State of Western Australia. These royalties are netted off against revenue.

### *Interest Rates*

The Base Case Model assumes a blended interest rate over the life of the Fixed Rate Notes and the Floating Rate Notes as well as interest on cash at the bank as follows:

Interest Rate on the Senior Secured Notes .....	9.0%
Cash at Bank .....	5.5%

The blended interest rate assumed for the Senior Secured Notes is for illustrative purposes only. The actual interest rate for the Senior Secured Notes will be determined during the marketing process for the Offering.

### *Corporate Taxation*

The Base Case Model assumes the Australian corporate tax rate of 30%.

### *Inflation*

Capital costs, all operating costs have been estimated with a rate of inflation of 2.5%. CRU iron ore prices are already stated in nominal terms up to 2020 therefore no inflation has been applied through maturity of the Senior Secured Notes.

### *Other Assumptions*

The Base Case Model also assumes that, among other things, the Project Group will not be negatively or positively impacted by legal proceedings or any material proceedings with respect to compliance with environmental laws and rules; there will be no material changes in the United States, Australian, foreign, state or local tax, property, environmental or regulatory laws, rules or interpretations thereof which would materially affect the Project Group; there will be no material change in any of the Project Group's existing or negotiated contracts and the parties thereto will perform their obligations thereunder; there will be no labor or industrial

disputes, political unrest or other disturbances that would materially affect the Project Group's operations or revenues, nor any disputes affecting the Project Group's suppliers or customers; the Project Group will not make any material acquisitions or dispositions; the Project Group will collect accounts receivable in a timely manner; key members of management will continue to be employed by the Project Group; the Project Group will be able to comply with covenants under agreements under which the Project Group has indebtedness outstanding; the Project Group's business will not be subject to materially adverse macroeconomic trends; and there will be no developments having a material adverse impact on the Project Group's business. See "Risk Factors".

## SELECTED CONSOLIDATED HISTORICAL FINANCIAL INFORMATION

The summary consolidated historical financial information presented in Australian dollars for fiscal years 2005 and 2006 set forth below has been derived from, and is qualified in its entirety by reference to, the 2006 Financial Statements, which have been audited by BDO Chartered Accountants & Advisers, our independent auditors. For your convenience, the financial data contains translations of certain Australian dollar amounts into U.S. dollars at the noon buying rate on June 30, 2006, which rate was A\$1.00 = US\$0.7423.

Fortescue's consolidated financial statements for fiscal 2006 have been prepared in accordance with AIFRS and also comply with IFRS and interpretations adopted by the International Accounting Standards Board. Australian companies such as Fortescue must comply with these standards commencing with fiscal years beginning after January 1, 2005. For the purpose of comparability with fiscal 2006, the fiscal 2005 financial data presented below has been prepared on a basis to comply with AIFRS and IFRS.

Fortescue's sole activity is the development of the Project. Until November 2005, however, it owned a medical products business known as Allied Medical Limited, which has been spun off to Fortescue's shareholders. All revenue shown in the tables below relates to sales by Allied Medical Limited. A loss of A\$507,300 recorded in connection with the spin-off is reflected below as discontinued operations.

The summary consolidated historical financial data should be read in conjunction with, and is qualified in its entirety by reference to, "Management's Discussion and Analysis of Financial Condition" and the 2006 financial statements.

	Year ended June 30,		
	2005	2006	2006
	A\$	A\$ (in thousands)	US\$
<b>Income statement data</b>			
Revenue	1,747	834	619
Profit/(loss) before income tax expense	(4,519)	(1,638)	(1,216)
Loss on sale of discontinued operation next of tax	—	(507)	(377)
Profit/(loss) for the year	(4,519)	(2,146)	(1,593)
<b>Balance sheet data</b>			
Exploration and evaluation expenditure	63,338	182,914	135,777
Total assets	148,343	221,048	164,084
Total non-current liabilities	79,354	67,266	49,933
Total liabilities	88,902	83,942	62,310
Total equity	59,441	137,106	101,774
<b>Cash flows data</b>			
Net cash used in operating activities	(48,363)	(129,111)	(95,839)
Net cash used in investing activities	(2,141)	(3,533)	(2,622)
Net cash from financing activities	124,453	67,268	49,933
Net increase/(decrease) in cash held	<u>73,949</u>	<u>(65,376)</u>	<u>(48,528)</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Prospective investors should read the following discussion together with the Project Group's financial statements and the notes to such financial statements included in this offering memorandum. The presentation in this section contains forward-looking statements that involve risks, uncertainties and assumptions. The Project Group's actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the captions "Forward-Looking Statements" and "Risk Factors" in this offering memorandum.

### Overview

Fortescue's principal activity is the development of the Project. Until November 2005, however, it owned a medical products business known as Allied Medical Limited, which has been spun off to Fortescue's shareholders.

While historical financial information exists, given the development stage of the Project, no meaningful commentary can be made on Fortescue's results of operations.

The Project Group assesses that construction is on schedule and within cost estimates. First shipments of iron ore are expected to occur in the first quarter of calendar year 2008.

### Exploration and Evaluation Expenditure

As of June 30, 2006, approximately A\$183 million of exploration and evaluation expenditure was capitalized on Fortescue's balance sheet. Under AIFRS, all exploration expenditure is capitalized to the extent that it is expected to be recouped through successful exploration of the area or where exploration and evaluation activities have not yet reached a stage that permits a reasonable assessment of the existence of economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. When production commences, the accumulated costs for the relevant area of interest are amortized over the life of the area according to the rate of depletion of the economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalized expenditure under our policy, the Project Group concludes that it is unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalized amount will be written off.

Exploration and evaluation expenditures are recorded differently under U.S. generally accepted accounting principles. Under U.S. GAAP, exploration expenditure in the search for mineralization deposits is usually expensed as incurred. Once it is determined that mineral reserves exist and are commercially recoverable, future expenditure is capitalized as development expenditure. Costs incurred in acquiring exploration tenements are carried forward and assessed periodically for recoverability.

### Liquidity and Capital Resources

Over the past three fiscal years, Fortescue has generally funded its Project expenditures from offerings of equity and convertible notes and borrowings under loan facilities.

#### *Cash flow from Operating Activities*

Net cash flow used in operating activities increased A\$80.7 million from A\$48.4 million in fiscal 2005 to A\$129.1 million in fiscal 2006 due to higher exploration and evaluation expenditure of A\$77.6 million.

### ***Cash flow from Financing Activities***

In fiscal 2005, Fortescue issued US\$80 million (A\$105 million) of convertible notes. All of the convertible notes were converted into ordinary shares of Fortescue during fiscal 2006. In fiscal 2006, cash from financing activities was A\$67.3 million, solely due to borrowings under the Bridge Loan.

### ***Cash flow from Investing Activities***

Net cash used in investing activities increased A\$1.4 million from A\$2.1 million in fiscal 2005 to A\$3.5 million in fiscal 2006 due to increased expenditure on equipment.

### ***Future Sources and Uses***

See “Project Financing Plan” for a discussion of sources and uses of financing upon closing of the Offering.

On July 15, 2006, Fortescue and Chichester entered into a subscription agreement with Leucadia pursuant to which Leucadia, or one or more of its related entities, has agreed to pay US\$300 million to acquire 26,400,000 shares in the capital of Fortescue, representing slightly less than 10% of the issued share capital of Fortescue, and US\$100 million to acquire a subordinated note to be issued by Chichester and guaranteed by Fortescue (the “Leucadia transactions”). Fortescue and FMG Finance will use these funds to develop the Project. For more information, refer to “Other Funding Arrangements—Leucadia Transactions” in this offering memorandum.

The Project Group intends to enter into operating leases for specific mining equipment. The mining equipment that will be subject to the operating leases is expected to have a combined estimated value of approximately US\$90 million. Fortescue may increase the amount of operating leases and reduce the amount of Senior Secured Notes if it receives further lease commitments prior to the pricing of the Offering. Additional operating lease facilities if committed prior to pricing of the Offering may be utilized to finance other equipment such as locomotives and rolling stock.

The Project Group is currently in discussion with several financial institutions and equipment suppliers who are in the process of obtaining credit approval to provide master operating lease facilities for some or all of the asset categories identified above. For more information, see “Other Funding Arrangements—Operating Lease Facility.”

### **Bridge Loan**

In March 2006, Fortescue entered into a US\$200 million bridge loan facility with Citibank, N.A., as arranger, and a syndicate of investors. The key terms of the Bridge Loan are:

- the facility is subject to review in March 2007 and terminates definitively in March 2008;
- interest rate is a customary margin above the London Interbank Offered Rate; and
- the facility is secured by the Project assets.

As of July 24, 2006, US\$150 million was drawn under the Bridge Loan. Proceeds from the sale of Fortescue ordinary shares to Leucadia will be used to repay all borrowings under the Bridge Loan, which Fortescue will terminate upon such repayment, at which time all security under the Bridge Loan will be released.

### **Financial Instruments**

Fortescue does not use financial instruments such as hedges and does not currently anticipate using them when the Project is completed.

## INDUSTRY OVERVIEW

*CRU, a management consulting company specializing in the international metals, mining and electricity industries was engaged to provide an independent assessment of the iron ore market and the Project's iron ore product, which resulted in the CRU Report. The Industry Review below is a summary of the CRU Report. The issues discussed in this Industry Review are discussed at length in the CRU Report.*

### Introduction

The growth in both steel production and the associated iron ore demand has been significant in recent years. In 1998 global iron ore demand was 972 million tonnes. By 2005 this figure is estimated to have increased to over 1.4 billion tonnes. This equates to an annual growth rate of 5.9% per annum.

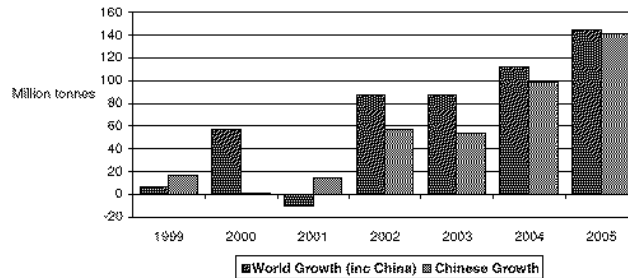
CRU does not believe that the global growth rates witnessed in recent years can be sustained and expects an annual rate closer to 3.3% to be achieved between 2005 and 2020.

In 2015 CRU expects global consumption of iron ore be over 2.1 billion tonnes. By 2020 this figure is expected to grow to 2.430 billion tonnes. From 2005 until 2020 consumption is expected to increase by 975 million tonnes, an average of 61 million tonnes per year. Based on past experience, some of this increased demand will be met by the normal process of incremental expansion and productivity improvement at existing mines. CRU calculates, however, that this magnitude of demand growth would require an additional iron ore operation of a scale of the Project to be developed and to come into production every year between now and 2020.

The main driver of the expected increase in iron ore demand is China, which is expected to grow at approximately 4.5% per annum, and in the longer term, Brazil, Russia and India, which are expected to make an increasing contribution to global iron ore demand.

The principal driver of this growth in demand is China. For this reason, China is the Project's principal target market. From 2001 to 2005, China's consumption of iron ore grew from 327 mtpa to 678 mtpa, an increase of 107%. To put this in perspective, total world consumption of iron ore grew from 1.03 billion tonnes to 1.45 billion tonnes from 2001 through to 2005, representing an increase of 41%. CRU predicts that by 2020, China alone will consume 1.36 billion tonnes of iron ore and will account for 50% of the global consumption of iron ore.

**Annual growth in iron ore consumption**



Source: CRU

Three companies, BHP Billiton, Rio Tinto and CVRD, currently dominate the global seaborne trade in iron ore. These three companies accounted for 73% of global seaborne trade iron ore in 2005. BHP Billiton and Rio Tinto export the majority of their iron ore from the Pilbara region in Australia and CVRD exports iron ore from Brazil.

With CRU expecting growth in global seaborne iron ore demand to be particularly strong in the Asian region, current high oil prices and freight rates mean that Australian iron ores should have a distinct advantage in terms of their effective cost to the steel mill over Brazilian ores when sold to the Asian market.

According to CRU, an opportunity currently exists for independent Australian iron ore producers to enter the iron ore market because:

- the recent historical and projected growth of iron ore consumption, led by China, provides room for a host of new iron ore projects;
- the major iron ore producers did not predict this growth and as a consequence were not prepared to meet this demand, which resulted in tight supply and high prices. Accordingly, steel manufacturers are concerned about the lack of competition among the major iron ore producers and any new independent iron ore operator, who can compete with the major players, is likely to be favorably received by the industry; and
- Australian mines are ideally located to service the expected growth in the Chinese and other Asian markets.

CRU expects a significant increase in capacity to meet the growing demand for seaborne iron ore. CRU expects this increase to stem from a mixture of production increases from BHP Billiton, Rio Tinto and CVRD, along with a number of new greenfield iron ore projects.

Other noteworthy greenfield projects include three projects in West Africa owned by Rio Tinto, Kumba Iron Ore and Mittal Steel. All three projects contain high-grade iron ore with low impurities.

### Steel Consumption

Steel manufacturers are the primary consumers of iron ore. As with many commodities in recent years, the global steel market has grown significantly with annual crude steel production in 2005 rising above 1.1 billion tonnes. The rate of growth in global steel consumption since 1998 is shown below.

#### Apparent Consumption of Finished Steel

(millions of tonnes)	1998	1999	2000	2001	2002	2003	2004	Growth 98-04
Western Europe .....	144	141	147	143	142	141	146	0.2%
Eastern Europe .....	19	17	20	20	21	22	24	3.5%
CIS/ex-USSR .....	25	29	36	39	38	39	42	8.6%
North America .....	148	145	152	134	137	131	147	-0.2%
South America .....	27	25	28	28	28	28	31	2.1%
Africa .....	7	7	7	8	10	9	9	4.5%
Middle East .....	37	37	40	42	46	52	55	6.7%
Asia .....	276	302	322	348	393	443	493	10.2%
Oceania .....	7	7	7	8	8	9	9	5.8%
<b>World Total .....</b>	<b>690</b>	<b>708</b>	<b>758</b>	<b>771</b>	<b>821</b>	<b>873</b>	<b>955</b>	<b>5.6%</b>
of which								
Brazil .....	15	14	16	17	17	16	19	4.1%
China .....	111	123	125	153	186	232	272	16.2%
India .....	23	25	26	27	29	30	33	5.8%
Japan .....	70	69	76	73	72	73	76	1.3%
South Korea .....	25	34	38	38	44	46	48	11.5%
United States .....	120	116	120	106	107	101	114	-0.8%
<b>Sub-Total .....</b>	<b>363</b>	<b>381</b>	<b>401</b>	<b>415</b>	<b>454</b>	<b>498</b>	<b>561</b>	<b>7.5%</b>

Data: CRU

The growth in global steel consumption since 1998 has been driven by the rapid growth of steel consumption outside the Western economies, as several emerging economies reached a very steel-intensive phase of growth.

The acceleration in demand growth has been particularly acute since 2001, aided by spectacular rates of growth in China, which is by far the largest single consumer of global steel today. In 1998, China accounted for 16% of global steel demand. Today it accounts for 28% of global steel demand. By comparison, North America and Western Europe combined accounted for 42% of global steel demand in 1998. Today these regions combined only account for a little less than 31%.

## Steel Production

The following table shows global steel production by region from 1998 through 2005.

### World Steel Production

(millions of tonnes)	1998	1999	2000	2001	2002	2003	2004	2005	Growth 98-05
Western Europe . . . . .	161	157	165	160	160	162	170	166	0.4%
Eastern Europe . . . . .	32	27	30	29	30	32	35	32	0.2%
CIS/ex-USSR . . . . .	74	86	99	101	102	109	114	113	6.1%
North America . . . . .	130	130	135	120	123	126	134	126	-0.4%
South America . . . . .	36	35	39	37	41	43	46	45	3.2%
Africa . . . . .	12	12	14	16	16	17	17	18	5.5%
Middle East . . . . .	9	10	11	12	13	14	15	16	8.4%
Asia . . . . .	312	323	346	369	411	462	529	605	9.9%
Oceania . . . . .	10	9	8	8	8	8	8	9	-1.7%
<b>World Total . . . . .</b>	<b>777</b>	<b>788</b>	<b>848</b>	<b>851</b>	<b>904</b>	<b>972</b>	<b>1,069</b>	<b>1,130</b>	<b>5.5%</b>
of which									
Brazil . . . . .	26	25	28	27	30	31	33	32	3.0%
China . . . . .	115	124	127	151	182	222	280	349	17.3%
India . . . . .	23	24	27	27	29	32	33	38	7.2%
Japan . . . . .	94	94	106	103	108	111	113	112	2.7%
South Korea . . . . .	40	41	43	44	45	46	48	48	2.6%
United States . . . . .	99	97	102	90	92	94	100	93	-0.8%
<b>Sub-Total . . . . .</b>	<b>396</b>	<b>406</b>	<b>433</b>	<b>442</b>	<b>485</b>	<b>536</b>	<b>606</b>	<b>673</b>	<b>7.9%</b>

Data: CRU

Steel production, in aggregate, is driven by steel consumption. Accordingly, growth rates in production are at broadly similar levels to those observed in consumption.

The tables above demonstrate that the structure of the steel industry has changed and CRU believes that this change will continue with Asia, and particularly China, becoming the hub of global steel production and consumption.



## World Steel Production Forecast

(millions of tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Growth 08-17
Western Europe .....	166	167	167	166	166	166	165	165	164	164	-0.1%
Other Europe & CIS .....	181	186	192	19	204	210	215	221	227	234	2.9%
North America .....	130	134	136	138	140	142	144	146	148	150	1.6%
South America .....	49	51	53	55	57	58	60	62	64	65	3.3%
Africa .....	19	19	20	21	22	23	23	24	25	25	3.5%
Asia .....	753	798	836	867	900	932	964	997	1,023	1,049	3.8%
Oceania .....	9	9	9	9	9	9	10	10	10	10	1.7%
<b>World Total .....</b>	<b>1,307</b>	<b>1,365</b>	<b>1,414</b>	<b>1,455</b>	<b>1,498</b>	<b>1,540</b>	<b>1,582</b>	<b>1,625</b>	<b>1,662</b>	<b>1,698</b>	<b>3.0%</b>
of which											
Brazil .....	35	37	38	39	40	42	43	44	45	47	3.4%
China .....	477	511	547	572	598	624	649	675	691	707	4.5%
India .....	55	60	64	69	73	78	82	87	91	96	6.5%
Japan .....	108	110	110	110	110	110	110	110	108	106	-0.2%
South Korea .....	50	52	52	53	53	54	54	55	55	56	1.2%
United States .....	95	98	99	100	101	101	102	103	104	105	1.1%
<b>Sub-Total .....</b>	<b>819</b>	<b>867</b>	<b>910</b>	<b>942</b>	<b>975</b>	<b>1,008</b>	<b>1,040</b>	<b>1,075</b>	<b>1,095</b>	<b>1,116</b>	<b>3.5%</b>

Data: CRU

Production growth over the last five years has been dominated by China and growth in Chinese production volumes is expected to continue. According to CRU, growth in Chinese production volumes will be the main driving force behind growth in global steelmaking capacity with a wave of new integrated steelmaking projects being developed in China.

CRU expects that China will account for 67% of the increase in production from 2004 until 2017 as China is likely to import more high end specialized products and may export commodity grades. However, with a strong resource base in coal, relatively low capital construction costs and extremely low labor costs, China is a potentially competitive source of steel. In fact, during 2005 China became a net exporter of steel.

In assessing China's steel production growth potential, CRU believes two important factors should be taken into account:

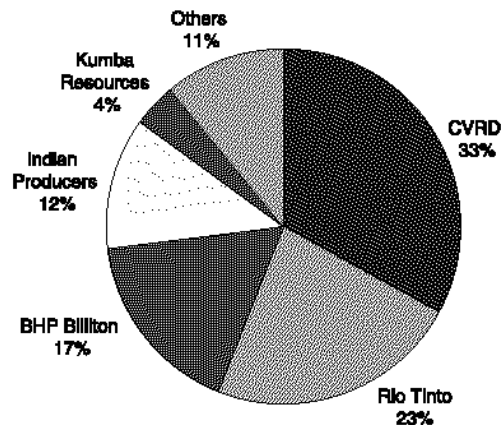
- While the proportion of global steel production from China is forecast to increase significantly, as the absolute size of the Chinese steel industry expands, the constraints limiting growth will also intensify, particularly the limited long term supply of coking coal for the Chinese steel industry; and
- there is a reasonable prospect of a significant economic recession which would impact negatively on Chinese steel production due to rising energy costs, financial imbalances in the Chinese banking sector and other economic and political factors.

CRU have allowed for a reduction in the average growth rate over time to cater for the probability that, over the longer term, China is likely to suffer from some form of economic shock.

### Iron Ore Industry

The iron ore industry has high barriers to entry due to the necessity of high-quality reserves and access to significant capital to build infrastructure requirements. Consequently, the industry is highly concentrated with three companies—Rio Tinto, BHP Billiton and CVRD—accounting for more than 70% of the seaborne trade.

### Seaborne Iron Ore Trade



Source: CRU

These companies have a significant advantage over other producers as they have the ability to build incremental expansions to capacity at relatively low capital cost. Consequently, they can dominate the industry by producing large volumes at comparatively low production costs. The three largest companies produce a mix of lump ore, sinter fines and pellets with high average iron content and low impurities. Product quality is high and consistent. Outside the big three, the market consists of medium to small producers exporting a mix of lump ore, sinter fines or pellets.

*Rio Tinto* is the second largest iron ore producer globally and controls production in a number of operations, dominated by its flagship mines in the Pilbara region of Western Australia. These are currently undergoing rapid expansion to satisfy growing Chinese imports. The Pilbara mines produce good quality lump ore and sinter fines. The ore from the Hamersley system provides one of the main pricing benchmarks for the industry.

### Rio Tinto Production

Operating Company	2000	2001	2002	2003	2004	2005	2006*
	(millions of tonnes)						
Hamersley Iron	65.70	63.83	68.16	73.40	78.14	89.59	96.50
Robe River	33.05	30.71	36.12	45.22	48.46	52.45	53.00
IOC	16.38	14.54	13.31	14.23	11.14	15.65	15.60
Rio Tinto Brazil	0.78	0.64	0.86	1.07	1.30	1.41	1.60
<b>Totals</b>	<b>115.90</b>	<b>109.71</b>	<b>118.45</b>	<b>133.92</b>	<b>139.03</b>	<b>159.10</b>	<b>166.70</b>

Data: CRU (\*2006 production figures are estimated)  
 Figures represent full production and not Rio Tinto's share

Rio Tinto's Pilbara operations have undergone recent rapid expansion, bringing their total exports to 127.1 mtpa in 2004. These expansions have included a 40 million tonnes per annum expansion and upgrade of Dampier port, a US\$200 million expansion of the Yandicoogina mine from 24 mtpa to 36 mtpa, power upgrades and track duplication on the railroad. Further port and mine expansions will bring total capacity close to 200 mtpa by the end of 2007. Rio Tinto's Australian operations mainly export to China and Japan. All finished product is sold under long-term contracts or joint ventures with Japanese and Chinese steel mills. Rio Tinto's contracts tend to be 10 to 20 years in length with prices set on an annual basis.

*BHP Billiton* is currently the third largest iron ore miner globally with the majority of its operations based in the Pilbara, Western Australia. The company also jointly owns Samarco, a significant pellet producer in Brazil.

Like Rio Tinto, BHP Billiton has invested heavily in the Pilbara in order to maximize supply to China. BHP Billiton has entered into a number of joint ventures with leading Asian steel companies that have guaranteed not only significant offtake agreements but also capital investment in infrastructure.

#### BHP Production

<u>Operating Company</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006*</u>
	(millions of tonnes)						
BHP Billiton .....	65.9	70.7	73.3	83.0	94.5	104.9	112.0
Samarco .....	14.4	11.5	14.5	15.3	15.5	15.2	16.0
<b>Totals .....</b>	<b>80.3</b>	<b>82.2</b>	<b>87.8</b>	<b>98.3</b>	<b>110.1</b>	<b>120.1</b>	<b>128.0</b>

Data: CRU (\*2006 production figures are estimated)

Figures represent full production and not BHP Billiton's share

BHP Billiton's Pilbara operations have expanded rapidly over the last two years with three main projects completed at an approximate capital cost of US\$630 million. These projects are Rapid Growth Project 1, Accelerated Expansion and the opening of the Area C mine have collectively brought capacity from 95 mtpa in 2004 to 110 mtpa in 2005. Iron ore from BHP Billiton's Pilbara operations is mainly shipped to Japan and China. BHP Billiton has entered into joint venture partnerships for all its mines. Partners include Mitsui-Itochu Iron, CI Minerals, POSCO and a consortium of Chinese steel mills. The partners are bound to purchase a stipulated minimum amount of iron ore each year.

CVRD is the world's largest producer and exporter of iron ore, operating large integrated mining and transport systems in Brazil. CVRD has initiated an aggressive expansion programme to increase production to 300 mtpa by 2010.

#### CVRD Production

<u>Operating Company</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006*</u>
	(millions of tonnes)						
CVRD .....	118.19	126.67	125.69	149.85	168.92	183.49	202.49
Caemi .....	26.66	28.66	33.31	35.96	42.34	50.36	52.00
Samarco .....	14.38	11.54	14.50	15.30	15.53	15.23	16.00
<b>Totals .....</b>	<b>159.2</b>	<b>166.9</b>	<b>173.5</b>	<b>201.1</b>	<b>226.8</b>	<b>249.1</b>	<b>270.5</b>

Data: CRU (\*2006 production figures are estimated)

Figures represent full production and not CVRD's share

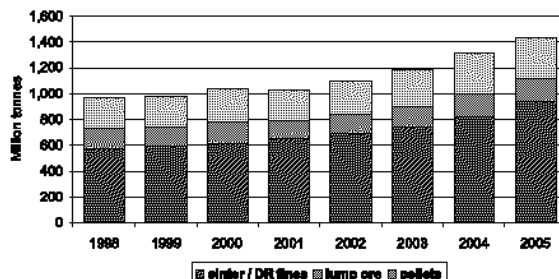
All new capacity expansions will be combined with infrastructure upgrades, allowing more cost effective throughput. Many of the exhausted mines will close and be replaced by new, lower-cost operations, therefore reducing CVRD's already low production costs further. CVRD exports approximately 75% of its total production with the remainder sold to the domestic steel industry. Exports to Asia have been increasing over the last few years and now comprise 40% of CVRD's total exports. CVRD's traditional market of Europe is, however, still a strong buyer of ore, particularly Germany. As with Rio Tinto and BHP Billiton, all CVRD's iron ore is sold through long-term contracts with steel mills.

#### Iron Ore Consumption

Total iron ore consumption has grown significantly over the last five years, increasing by 477 mt since 1999 to over 1.45 billion tonnes in 2005. Growth in consumption is dominated by Asia, and China in particular with the Asian market accounting for nearly 65% of global consumption. In 2003, 2004 and 2005 the global market grew by 7.8%, 9.3% and 9.0%, respectively. During the same time, Chinese consumption grew by 14.1%, 22.4% and 26.5%, respectively.

The demand mix for the three main iron ore products (sinter/DR fines, lump ores and pellets) is driven by product availability, product price differentials and the iron production technologies in use and preferred for project development.

**Global breakdown of iron ore consumption by product**



Source: CRU

Global demand of lump ore varies between regions, largely reflecting the proximity of supply sources. Consumption is dominated by Asia, which accounted for 70% of global demand in 2005. Historically, except during periods of cyclical weakness in the steel market, iron ore suppliers have found it relatively easy to secure customers for their lump ore availability. Lump ore is generally perceived as the cheapest source of iron units for hot metal or DRI/HBI production as there are no processing costs. This is changing somewhat because Chinese steelmakers tend to have a strong preference for sinter fines or pellets. This has been verified by heavy investments in sinter making and pelletizing capacity. In addition, some Chinese steel mills are sited at inland locations, raising a degradation issue concerning lump ore deliveries. Degradation reduces the value of lump ore over sinter fines.

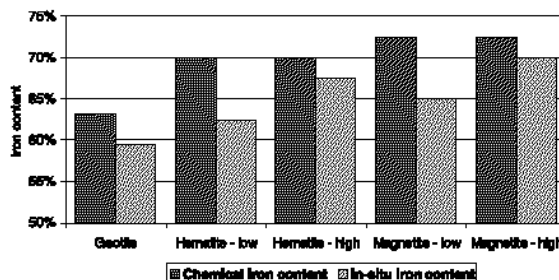
In global terms, sinter consumption has been booming over the past 3 years. Demand exceeded 900 mt in 2005. This represents growth of around 356 mt, or 85% since 1998. Most of the growth has been in China, where consumption is estimated to have doubled to 542 mt in 2005. Elsewhere, India has installed new sinter capacity. Incremental additions to existing capacity have been commonplace throughout the world. However, sinter consumption in some countries has been constrained by a lack of capacity.

Over the last six years, global demand for pellets has increased significantly. Nearly all of this growth has taken place in developing regions. South America, Africa and Asia have all seen a significant expansion in pellet consumption since 1990. Asia has accounted for the largest share in absolute terms with Asia demand increasing by 78 mt between 1998 and 2005 and growing at 15.3% on average. Within Asia, China has been the main driver, but by no means the only one.

### Types of Iron Ore

Economical iron ore production usually accesses magnetite, hematite or goethite ores. Magnetite ores ( $Fe_3O_4$ ), contain a slightly higher grade of iron than either hematite or goethite ores ( $Fe_2O_3$ ).

**Iron ore content by type**



Source: CRU

Steelmakers are able to consume any of these ores in their blast furnaces and CRU is not aware of any pricing differentials that exist that can be attributed to the primary ore type. CRU believes that steelmakers could and would readily switch between magnetite and hematite ores if the right pricing signals were received. “Value in use” issues for iron ore are related to differences between ores such as iron grade, impurity level, physical structure and steelworks plant configuration.

*Iron Ore Grade*—The objective of the blast furnace operator is to produce iron. It is unusual for steelmakers to place value on any other constituents of the ore. In the vast majority of cases ores with a higher iron content are worth more than ores with a lower iron content. This is reflected in the longstanding industry practice of purchasing ores on the basis of U.S. cents/metric tonne unit. Steelmakers are only interested in the value of the iron contained within the ore, not the volume of ore per se.

*Impurities*—Impurities in iron ore are a more substantial issue and are normally addressed by raw material blending. By mixing ores with different impurity levels in appropriate proportions in the agglomeration process or in the blast furnace, a steelmaker can produce an average blend with trace impurities that are acceptable. Thus, steel companies often accept iron ore products with impurities in limited quantities, typically up to a specified percentage of the overall feed. The impact that this has on value appears to be very much a matter of negotiation. In this context, there is a very large difference between the total cost of blending operations and their marginal cost.

*Physical Structure*—The physical structure of the ore is a critical issue for the blast furnace operator. For the process to operate effectively, gases must flow through the blast furnace in an even manner. Blast furnaces are in continuous operation and need to be stable. If the structural properties of the burden are out of control, there is a risk that the furnace may become clogged, leading to loss of production efficiency, excess wear on the lining and even serious accidents. Efficient blast furnaces operations continue to operate for 7-10 years before being shut down for a major rebuild. The blast furnace burden usually consists of a blend of sinter, lump, pellets, coking coal, and limestone. Generally, lump or pellets are required in the blend in order to ensure an efficient flow of gases in the furnace.

*Plant Configuration*—Sintering operations, which must be located at the integrated steel works for material handling reasons, generate substantial noise and dust to the point where they are considered environmentally marginal in most advanced industrial countries. This is now becoming an issue in parts of China as well. Steel works that maintain sintering capacity will always treat pellets as a swing product in their blast furnace burden. At the margin, these steel works will be comparing the price of sinter fines plus the incremental operating cost of the sinter plant with the price of pellets.

## Iron Ore Market Forecasts

CRU's forecast for the future consumption of iron ore is shown below.

### Forecast Consumption of Pellets, Sinter Fines and Lump Ore

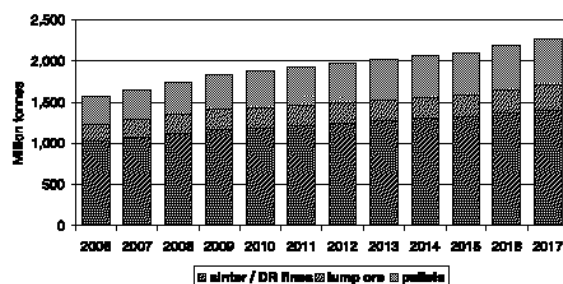
(Million of tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Growth 08-17
Western Europe . . . . .	133	133	132	130	128	127	125	123	123	122	-1.0%
Other Europe & CIS . . . . .	191	200	207	214	222	229	236	244	253	262	3.6%
North America . . . . .	93	98	99	100	102	103	105	106	107	108	1.7%
South America . . . . .	82	87	89	91	93	95	98	100	104	107	3.0%
Africa . . . . .	26	27	27	28	29	29	30	31	32	33	2.7%
Asia . . . . .	1,215	1,276	1,314	1,350	1,386	1,421	1,456	1,492	1,556	1,626	3.3%
Oceania . . . . .	10	10	10	10	10	10	11	11	11	11	1.8%
<i>Unaccounted consumption . . . . .</i>	<i>10</i>	<i>11</i>	<i>10</i>	<i>9</i>	<i>7</i>	<i>6</i>	<i>5</i>	<i>4</i>	<i>4</i>	<i>4</i>	<i>-9.8%</i>
<b>World Total . . . . .</b>	<b>1,761</b>	<b>1,840</b>	<b>1,888</b>	<b>1,933</b>	<b>1,978</b>	<b>2,022</b>	<b>2,065</b>	<b>2,110</b>	<b>2,189</b>	<b>2,274</b>	<b>2.9%</b>
of which											
Brazil . . . . .	56	60	62	64	65	67	69	71	73	75	3.2%
China . . . . .	907	951	989	1,023	1,058	1,094	1,128	1,163	1,205	1,249	3.6%
India . . . . .	83	92	98	103	109	114	119	125	136	147	6.5%
Japan . . . . .	127	129	129	129	128	128	127	127	125	123	-0.4%
South Korea . . . . .	43	44	45	45	45	46	46	47	47	47	1.2%
United States . . . . .	54	55	56	57	58	59	60	61	62	63	1.7%
<b>Sub-Total . . . . .</b>	<b>1,270</b>	<b>1,332</b>	<b>1,379</b>	<b>1,421</b>	<b>1,464</b>	<b>1,507</b>	<b>1,549</b>	<b>1,593</b>	<b>1,648</b>	<b>1,704</b>	<b>3.3%</b>

Data: CRU

CRU is forecasting total iron ore consumption growth between 2008 and 2017 of 2.9% per annum, which is slightly lower than CRU's steel production forecast of 3.0% per annum due to the higher proportion of steel CRU expects to be produced from blast furnaces in the future.

CRU also expects China's dominance as an iron ore consumer to increase due to growth in China's steel production and the predominance of iron ore in the raw material mix. Brazil and India are also expected to experience strong growth in iron ore consumption.

### Global breakdown of iron ore consumption by product



Source: CRU

### *Lump ore*

The prospects for growth in lump ore are relatively modest. It is a desirable product for blast furnaces but its use is a function of availability, which is limited. Regions that have easy access to growing lump ore supplies, such as China and India, are expected to increase their consumption as their production capacity increases. Other traditional buyers of lump ore, such as Europe and Japan, are not expected to increase their consumption significantly.

#### **Forecast Consumption of Lump Ore**

<u>(Million of tonnes)</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Growth 08-17</u>
Western Europe .....	15	16	16	16	15	15	15	15	15	15	-0.5%
Other Europe & CIS .....	5	5	5	6	6	7	7	7	7	6	3.2%
North America .....	1	1	1	1	1	1	1	1	1	2	6.6%
South America .....	30	33	33	33	33	34	34	34	36	37	2.3%
Africa .....	10	10	10	10	10	10	11	11	11	11	1.6%
Asia .....	159	179	184	185	185	185	185	185	205	230	4.1%
Oceania .....	1	1	1	1	1	1	1	1	1	2	8.8%
<b>World Total .....</b>	<b>221</b>	<b>245</b>	<b>250</b>	<b>252</b>	<b>252</b>	<b>253</b>	<b>253</b>	<b>254</b>	<b>276</b>	<b>302</b>	<b>3.5%</b>
of which											
Brazil .....	25	28	28	29	29	30	30	31	31	32	2.7%
China .....	83	95	106	112	118	124	130	136	143	150	6.8%
India .....	31	35	37	40	42	44	47	49	52	56	6.8%
Japan .....	31	34	34	34	35	35	35	35	34	33	0.5%
South Korea .....	7	6	7	8	8	8	8	8	8	8	1.5%
United States .....	0	0	0	1	1	1	1	1	1	1	13.0%
<b>Sub-Total .....</b>	<b>178</b>	<b>200</b>	<b>214</b>	<b>223</b>	<b>232</b>	<b>241</b>	<b>250</b>	<b>259</b>	<b>269</b>	<b>279</b>	<b>5.1%</b>

Data: CRU

### *Pellets*

The prospects for blast furnace pellets are an annualised modest growth rate of 3.9% per annum through to 2017. This product presently accounts for about 19% of the global iron ore product supply. CRU does not expect significant change in the market share for this product.

### *Sinter fines*

CRU believes that the vast bulk of the growth of demand in iron ore products will continue to be delivered in the sinter fines sector. Sinter fines represent over 60% of the current supply market and although their overall market share is expected to fall marginally by 2017 sinter fines will still account for over 1.4 billion tonnes from a total market of almost 2.2 billion tonnes. CRU believes that growth will be concentrated in those areas that are adding steel production, namely China and other Asian economies (except Japan), Brazil, India and the Russia.

### Forecast Consumption of Sinter Fines

(Millions of tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Growth 08-17
Western Europe .....	80	79	78	78	77	76	76	75	74	74	-0.9%
Other Europe & CIS ....	126	130	133	136	139	142	145	149	153	158	2.5%
North America .....	6	6	6	6	6	7	7	7	7	7	1.3%
South America .....	30	30	31	32	34	35	36	37	38	39	3.0%
Africa .....	8	8	8	8	9	9	9	9	9	10	2.6%
Asia .....	876	903	926	951	977	1,002	1,026	1,052	1,081	1,112	2.7%
Oceania .....	4	5	5	5	5	5	5	5	5	5	1.0%
<b>World Total .....</b>	<b>1,130</b>	<b>1,161</b>	<b>1,188</b>	<b>1,217</b>	<b>1,247</b>	<b>1,275</b>	<b>1,303</b>	<b>1,333</b>	<b>1,367</b>	<b>1,404</b>	<b>2.4%</b>
of which											
Brazil .....	25	26	27	28	29	30	31	31	32	33	3.1%
China .....	706	726	747	768	790	812	833	855	878	902	2.8%
India .....	38	41	44	46	49	52	54	57	62	68	6.9%
Japan .....	88	88	87	86	86	85	85	84	83	83	-0.6%
South Korea .....	31	32	32	32	33	33	34	34	34	34	1.2%
United States .....	4	4	4	4	4	4	4	4	4	4	1.2%
<b>Sub-Total .....</b>	<b>891</b>	<b>916</b>	<b>941</b>	<b>965</b>	<b>990</b>	<b>1,016</b>	<b>1,040</b>	<b>1,065</b>	<b>1,095</b>	<b>1,125</b>	<b>2.6%</b>

Data: CRU

### Iron Ore Production

The rapid growth in iron ore demand in the past four years has placed a strain on iron ore supply. The market was caught out by the strength and prolonged nature of the growth in China's steelmaking needs and the traditional suppliers of sea-borne iron ore exports, Australia and Brazil, have not been able to keep pace with the growth in demand. As a consequence supplies from Asia have expanded rapidly to fill the gap. Between 2000 and 2005, production in India and China grew at 11.8% and 10.9% per annum, respectively, while production in Australia and Brazil grew at 8.6% and 6.0% per annum respectively.

### Forecast Production of Pellets, Sinter Fines and Lump ore

(Million of tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Growth 08-17
Western Europe .....	30	32	33	34	35	36	37	38	37	36	1.8%
Other Europe & CIS .....	186	193	199	206	213	219	26	233	241	249	3.3%
North America .....	103	104	105	106	107	109	110	111	113	115	1.2%
South America .....	344	373	384	395	406	417	428	439	451	464	3.4%
Africa .....	67	72	78	85	91	98	104	111	118	124	7.1%
Asia .....	720	727	725	739	753	765	779	793	823	853	1.9%
Oceania .....	317	346	360	375	389	404	418	433	441	449	4.0%
<b>World Total .....</b>	<b>1,767</b>	<b>1,845</b>	<b>1,894</b>	<b>1,949</b>	<b>2,001</b>	<b>2,052</b>	<b>2,104</b>	<b>2,156</b>	<b>2,181</b>	<b>2,206</b>	<b>2.1%</b>
of which											
Australia .....	317	346	360	375	389	404	418	433	441	449	4.0%
Brazil .....	314	343	355	367	380	392	404	416	426	435	3.7%
China .....	536	536	527	532	538	543	548	554	567	580	0.9%
CIS .....	182	189	194	200	206	212	218	224	232	240	3.1%
India .....	161	169	175	181	186	192	197	203	220	236	4.3%
S. Africa .....	50	54	59	63	67	72	77	81	87	92	7.1%
United States .....	52	52	53	54	55	56	57	58	59	60	1.6%
<b>Sub-Total .....</b>	<b>1,612</b>	<b>1,689</b>	<b>1,723</b>	<b>1,772</b>	<b>1,822</b>	<b>1,870</b>	<b>1,919</b>	<b>1,968</b>	<b>2,031</b>	<b>2,093</b>	<b>2.9%</b>

Data: CRU



Iron ore production is expected to meet consumer demand and grow from 1.3 billion tonnes in 2004 to over 2.2 billion tonnes in 2017. In terms of the total growth, CRU believes that output in the period 2008-2010 is likely to see slower growth, at 3.6% per annum a year, than the annual rate of 6.6% recorded in the five years ended in 2005. This is still a high rate by historical standards though. Between 2010 and 2017 CRU expects that the annual growth rate will moderate to 2.1% per annum.

### *Iron Ore Exports and Imports*

The following table outlines the CRU's forecast exports of iron ore by region and major country.

#### **Total Exports of Iron Ore**

<u>(Millions of tonnes)</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Growth 08-17</u>
Western Europe . . . . .	20	21	22	23	24	25	26	27	26	25	2.4%
Other Europe & CIS . . .	35	34	33	33	32	32	31	31	31	31	-1.6%
North America . . . . .	41	41	41	41	41	41	41	41	41	41	0.1%
South America . . . . .	311	339	352	365	378	391	404	417	424	432	3.7%
Africa . . . . .	49	54	60	66	72	78	84	90	96	102	8.5%
Asia . . . . .	92	86	88	90	92	94	96	98	105	113	2.3%
Oceania . . . . .	316	316	339	361	383	405	428	450	453	456	4.1%
<b>World Total . . . . .</b>	<b>864</b>	<b>890</b>	<b>934</b>	<b>979</b>	<b>1,023</b>	<b>1,067</b>	<b>1,111</b>	<b>1,155</b>	<b>1,177</b>	<b>1,199</b>	<b>3.7%</b>
of which											
Australia . . . . .	316	345	363	380	397	415	432	449	452	455	4.2%
Brazil . . . . .	291	319	332	344	357	369	382	394	401	408	3.8%
China . . . . .	0	0	0	0	0	0	0	0	0	0	
CIS . . . . .	35	34	33	33	32	32	31	31	31	31	-1.6%
India . . . . .	84	84	87	90	93	96	99	102	106	109	3.0%
S. Africa . . . . .	37	42	46	50	55	59	63	67	72	78	8.5%
United States . . . . .	10	10	11	11	11	11	11	11	11	11	0.9%
<b>Sub-Total . . . . .</b>	<b>774</b>	<b>834</b>	<b>871</b>	<b>908</b>	<b>945</b>	<b>981</b>	<b>1,018</b>	<b>1,055</b>	<b>1,073</b>	<b>1,091</b>	<b>3.9%</b>

Data: CRU

The export market is dominated by the Brazilian and Australian operators. In 2004, Australia and Brazil exported over 475 million tonnes of iron ore, representing approximately 66% of the total export market. CRU expects Australia and Brazil to continue to dominate the market. Indian exports are expected to grow to 109 million tonnes by 2017. CRU expects the highest sustained growth rate to be achieved by South Africa. Once infrastructure issues are resolved South Africa is positioned to become a major player in the market. South Africa is also located in a better position than Brazil to compete in the Asian market.

The two largest importers of iron ore are expected to be China and Japan. Australian operations are well situated to serve these markets. The Western European market is also significant and has traditionally been served by Brazil.

### Total Consumption of Imported Iron Ore

(Million of tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Growth 08-17
Western Europe . . . . .	126	126	125	123	121	120	118	116	116	115	-1.0%
Other Europe & CIS . . .	40	41	41	41	41	42	42	42	43	43	1.0%
North America . . . . .	35	39	39	40	40	40	41	41	40	40	1.2%
South America . . . . .	8	9	9	9	10	10	10	10	11	11	3.7%
Africa . . . . .	8	9	9	9	10	10	10	11	12	14	6.1%
Asia . . . . .	633	685	745	783	822	860	899	938	974	1,012	5.4%
Oceania . . . . .	2	2	2	2	2	2	2	2	2	2	-0.2%
<i>Unaccounted imports</i> . .	11	16	15	14	13	12	11	10	10	10	-1.6%
<b>World Total . . . . .</b>	<b>864</b>	<b>926</b>	<b>985</b>	<b>1,021</b>	<b>1,059</b>	<b>1,095</b>	<b>1,133</b>	<b>1,170</b>	<b>1,208</b>	<b>1,247</b>	<b>4.2%</b>
of which											
Brazil . . . . .	0	0	0	0	0	0	0	0	0	0	
China . . . . .	409	457	512	544	577	609	942	675	713	754	7.0%
India . . . . .	2	3	3	4	4	5	5	6	6	6	10.7%
Japan . . . . .	128	130	129	129	129	129	128	128	126	123	-0.4%
South Korea . . . . .	43	44	45	45	45	46	46	47	47	47	1.2%
United States . . . . .	13	14	14	14	14	14	14	14	14	14	1.3%
<b>Sub-Total . . . . .</b>	<b>595</b>	<b>648</b>	<b>703</b>	<b>736</b>	<b>769</b>	<b>802</b>	<b>836</b>	<b>869</b>	<b>906</b>	<b>945</b>	<b>5.3%</b>

Data: CRU

CRU expects imports of iron ore to continue to grow at an annual average rate of 4.2% per annum from 2008 until 2017. By the end of CRU's forecast period, CRU expects Asia to import 81% of all seaborne iron ore trade with China on its own accounting for 60% of global seaborne trade.

In the last four years the growth in seaborne trade has been greater than the underlying growth in the iron ore market. We expect to see this trend to continue. Despite an increase in the domestic production of iron ore in both China and India, CRU does not believe this growth will match its expected growth in underlying demand.

#### Iron Ore Market Outlook

The vast majority of iron ore is sold under long-term contract arrangements. The normal structure of these contracts is that volumes are established within an agreed range on a multi-year basis and prices are renegotiated annually according to prevailing market conditions. There is also a small but significant and expanding spot market.

Price negotiations typically take place in two stages. The first of these involves discussions between Rio Tinto, BHP Billiton, and CVRD and representative groups of the major steel mills. These negotiations are primarily about the proposed overall percentage change in the price of very widely traded ores such as Hamersley lump and fines, Itabira / Carajás fines, and/or CVRD pellets. At some point, a trend setting agreement will be reached on the price of one or more of these products between one of the groups of steel mills and an iron ore supplier.

This triggers a second phase in the negotiating process in which a much larger number of bilateral discussions occur over the precise terms for all the different ores both from the three major suppliers and other iron ore producers to individual mills. These second stage negotiations are very detailed and focus on discounts or premiums to the benchmark prices that reflect other location and quality issues. Normally, the outcome is that broadly similar changes in price occur across the board, at least in order of magnitude terms.

The negotiating season usually opens in December and is concluded by the first quarter of the new year. However, negotiations are more difficult in some years, and settlement times may be extended. Typically, mines continue to ship contracted volumes to steel works at the old price during this period with the understanding that the changes ultimately agreed upon will be retroactively applied to the quantities already shipped.

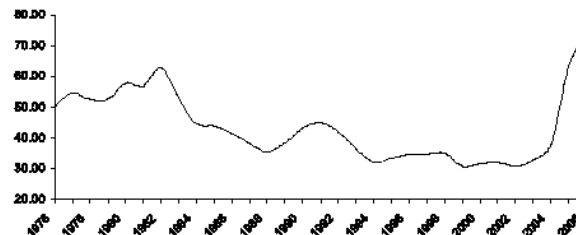
This institutional structure has been in place for many years and reflects the close relationships existing between steel mills and iron ore producers and the relatively high degree of trust that has been developed. However, given the sharply rising importance of Chinese imports of iron ore, any new project needs to recognize that there is a significant possibility that these traditional arrangements could change in the future.

The second phase of the annual price negotiation process also involves detailed agreement on volumes. The multi-year contracts mentioned above are typically framework arrangements that specify a projected volume with higher and lower limits.

The most representative benchmark price in the iron ore industry is, in CRU's opinion, the Hamersley fines price and the associated Hamersley lump price. These prices are quoted in US ¢/dry metric tonne unit on the basis FOB Dampier, which is Rio Tinto's main export terminal in Western Australia. An "iron unit" is 1% of the iron content. Thus, another way of expressing this price is that it refers to the cost in US \$/long ton of iron contained in the iron ore. The Hamersley prices are closely linked to the corresponding BHP Billiton prices for the export of comparable products from Port Hedland. There is also a benchmark price for Brazilian fines. It refers to so-called "Itabira fines," which is the main product of the CVRD southern system exported from Tubarao. These prices are quoted in US ¢/metric tonne unit.

The following chart shows the historical evolution of the Hamersley fines price expressed in constant 2005 \$/t Fe content. The clearest feature of the chart is the tendency for the price of iron ore to decline in real terms over the long-term—prior to 2004 when prices began to rise dramatically.

**Hamersley Fines, 2006 US ¢/dmtu, fob Dampier**



Source: Tex Report, CRU

CRU's experience with most mined commodities is that real prices have been declining on a long-term basis. Since there is no evidence of a long-term decline in industry profitability, the implication is that the industry's production costs have also been declining in real terms. The most probable reason is that the continuing gains in mining productivity and the more effective exploitation of scale economies have lowered costs by more than the impact of ore depletion, and adverse grade and location changes have raised them. The extent of the decline varies from metal to metal but is rarely less than 0.5% or more than 2.5% per annum. The iron ore price history illustrated above therefore appears to be consistent with the broader trends in extractive industries.

CRU considers that only trends in prices subsequent to the mid-1980s are relevant. Moreover, in looking at these trends, CRU focuses on the trough prices that occur in recession periods, because they believe these reflect

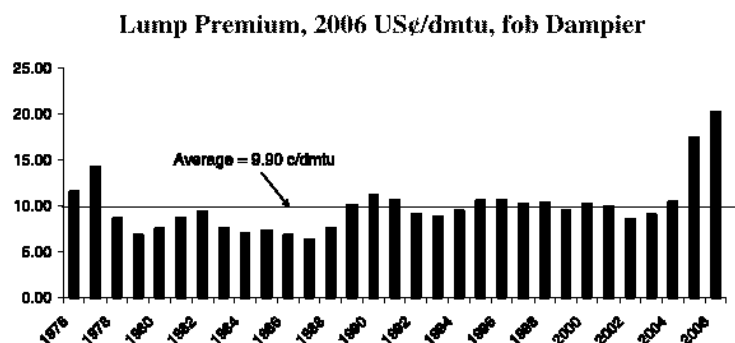
the point at which companies prefer to cut production rather than prices, thereby providing more reliable evidence as to underlying cost trends. For Hamersley fines, the low points in prices were 35.38¢/mtu in 1988, 32.15¢/mtu in 1994, 30.77¢/mtu in 1999, and 30.70¢/mtu in 2002. For CVRD pellets, the corresponding numbers were 57.42¢/mtu in 1986, 55.56¢/mtu in 1994, 54.55¢/mtu in 1999, and 52.23¢/mtu in 2002.

Extrapolating the trends from 1994 to 2002, the real long-term price decline has been 0.6% per annum for fines and 0.8% per annum for pellets. Extrapolating the trend since 1988, the long-term real price decline has been 1% for fines, and extrapolating the trend for pellets from 1986 to 2002, the long-term decline has been 0.6% per annum. CRU believes that these figures indicate, in broad order of magnitude terms, the range of potential assessments of long-term cost trends in iron ore industry.

The second feature of the historical price record is its cyclicity. The standard deviation of the average price from 1983-2003 was US\$5.70/t Fe, or 15.5% of the average price. Generally, somewhat higher figures are observed in the 20-25% range for many other mineral commodities.

The third observation is that since 2004, there has been an unprecedented break with trend. This is particularly the case with the 2005 price change. The increase of US\$25/tonne is equal to almost five standard deviations—a development that, from an historical statistical perspective, had a near zero probability of occurrence.

The following chart shows the evolution of the lump premium from 1976-2005.



Source: Tex Report, CRU

Over the last 20 years, the lump premium in absolute terms has been around US\$9-10/tonne Fe. CRU believes this can be explained in terms of a “value in use” analysis from the perspective of the steel works. The main difference between lump and fines is that lump bypasses the sintering stage of production at the steel works and therefore saves the variable cost involved.

This analysis suggests that the jump in the lump premium to US\$20.00 over the past two years may well be unsustainable. It appears to be well in excess of any amount that can be justified from a “value in use” perspective. During 2005, there was an acute physical shortage of iron ore feed as demonstrated by the premium of spot prices over contract prices. In these circumstances, the normal value in use criteria do not necessarily apply. If a steel company cannot obtain adequate supplies of feed, it will forgo very much more substantial profit opportunities on the downstream products it sell. Thus, on an incremental basis, it is possible to justify extremely high prices for marginal quantities of raw material, particularly those that tend to improve blast furnace productivity since this is often the constraint in the steel works. In this context, it is also noteworthy that the pellet premium jumped from the normal level of 25-30 US¢/Mtu to more than 50 US¢/Mtu at the same time.

On the basis of this analysis and in the long-term, when iron ore markets will be reasonably balanced between supply and demand, CRU expects the lump premium to revert to its more traditional level as dictated by value in use considerations.

A core issue in looking at future iron ore prices is the long-term significance that may be attached to developments in 2004 and 2005 when iron ore prices rose by unprecedented amounts, essentially doubling. To what extent did these developments reflect the normal business cycle that is characteristic of commodity markets, and to what extent are we witnessing a permanent upward movement—a structural shift—in the underlying price levels in this industry?

Representatives of several mining companies and a number of independent analysts have advanced the argument that the current boom in commodity prices marks a fundamental break with the past. This implies that most, if not all, of the real increase in prices will be sustained—if not permanently, then at least for a five- to ten-year period—thus representing a so-called “super cycle.”

CRU believes there is a reasonable basis for concluding that a significant real increase in costs has taken place. From this perspective, CRU believes that there is a structural component to the recent price increases. In particular, four factors may have contributed to such a shift, namely:

- the U.S. dollar exchange rate;
- the structure of world energy prices;
- changed conditions in the mining supply industries; and
- infrastructure issues.

The combined impact of all of these factors has been, in CRU’s opinion, to add around 25-30% to the industry’s underlying cost structure on a long-term basis. CRU emphasizes that this is its base case assessment and that there is a considerable uncertainty involved in quantifying the different elements involved. Thus, it will be necessary for a number of years to pass before we can be absolutely certain that the cost structure has increased in real terms by the order of magnitude indicated above.

A related issue is whether or not long run marginal costs will continue to fall in real terms as they have done in the past. In CRU’s opinion, there is no reason to suppose that mining productivity has reached any kind of plateau. Mining companies and equivalent suppliers continue to innovate and develop lower-cost and more productive pieces of equipment. The Project Group’s interpretation, therefore, of the events of 2005 is that these largely reflect a one-time adjustment to the historical trend.

It is evident from the historical price data that the trend of long-term prices has been downwards in real terms. CRU notes that the phenomenon of falling real production costs is not unique to iron ore, but can be observed in virtually every metallic mineral and for other mined products such as coal. The explanation is that mining technology has been radically improved over time. The size and reliability of mining units such as shovels and trucks has significantly increased and similar efficiency gains have been exhibited by processing equipment such as crushing plant, grinding mills and the like. CRU believes that there is ample further potential for technology gains over the next 20 plus years. Mining companies are already experimenting with such innovations as driverless trucks, mobile in-pit crushing systems and new kinds of inclined conveying systems.

Aside from these generic trends there are two particular reasons why iron ore mines are likely to continue experiencing falling real costs over time. One is that iron ore mining is not, in general, confronted with the challenge of continuously falling ore grades to the extent of other sectors like copper and gold. The grade implications of moving from a 65% Fe to 58% are comparatively minor. This is because the mining component of the total cost structure in iron ore is very low—always below 50% and in some cases below 25%.

In addition, although much of the increased demand for iron ore will be met by expansions of existing operations, the demand is so great that new greenfield facilities will also be required. Such projects face very high initial costs to fund their infrastructure. However, once constructed, experience in places like Western Australia and Brazil suggests that subsequent capacity expansions are available at lower incremental capital costs and also drive down operating costs by exploiting scale economies, particularly related to infrastructure. For

these reasons, CRU believes that it is appropriate to assume, going forward, that the industry's cost structure will continue to decline by about 0.6% per annum in real terms once the current structural change has been digested.

As noted earlier, during the recent run-up in prices the lump premium has increased to over US\$20/tonne Fe as a result of the industry applying the same large percentage increase to both lump and fines. CRU does not believe that such a substantial premium can be sustained. Therefore, CRU projects that as the basic fines price returns to equilibrium levels, the traditional lump premium will be restored. Thus, in the long run, lump prices should be around US\$11.50/tonne Fe higher than fines in real terms.

This is a long-term forecast and current Hamersley fines prices are US\$73.46/tonne Fe, which is well above this trend. The precise path of convergence to the trend depends, of course, on short-term supply and demand considerations. CRU's current assessment is that tight markets will continue into 2007, permitting another small iron ore price increase. However, conditions are currently volatile and as such there is a high degree of uncertainty associated with the short-term forecast.

CRU is more confident regarding the longer-term outlook, namely that a combination of somewhat slower demand growth and the cumulative impact of the supply side expansions now under way will return the market back to equilibrium by 2010-2012. This assessment lies behind the base case forecasts that are summarized in the following table.

#### CRU Iron Ore Price Forecasts—Base Case

<u>(US €/dmtu, nominal)</u>	<u>Basis</u>	<u>2005<sup>1</sup></u>	<u>2006<sup>1</sup></u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Avg Growth 2005-2012</u>
Hamersley Fines . . . . .	fob Dampier	61.7	73.5	77.1	69.4	61.6	53.2	49.9	51.2	-2.6%
Hamersley Lump . . . . .	fob Dampier	78.8	93.8	96.1	86.5	76.4	66.0	63.1	64.8	-2.8%

<u>(US €/dmtu, nominal)</u>	<u>Basis</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Avg Growth 2013-2020</u>
Hamersley Fines . . . . .	fob Dampier	52.5	53.9	55.3	56.8	58.2	59.8	61.3	62.9	2.6%
Hamersley Lump . . . . .	fob Dampier	66.6	68.4	70.3	72.2	74.2	76.3	78.4	80.6	2.8%

Source: CRU

This is a base case forecast which reflects a large number of assumptions made by CRU about such things as the future growth of the world economy, the specific economic situation in China, developments in the world steel industry, the effectiveness with which iron ore suppliers respond to current price signals and so forth. Different equally plausible assumptions can be made about these and other factors, which would give rise to outcomes significantly above or below this case. These risks, and their price implications, are more fully described in "The Independent Iron Ore Market Report" prepared by CRU.

#### CRU High Case and Low Case Iron Ore Price Forecasts

CRU has developed two alternative scenarios around the base case forecast for Hamersley fines. These scenarios are intended to capture the impact of a small number of major uncertainties while accepting the majority of the base case assumptions, particularly those relating to macroeconomic variables such as exchange rates, inflation, energy prices, and so forth.

There are two areas, specifically, where CRU believes that more than normal potential for uncertainty exists, and these have been used as the basis for generating alternative high- and low- case scenarios:

- i) the structure and duration of the current boom in iron ore prices; and
- ii) the long run behavior of the major iron ore producers in relation to potential new competitors.

The alternative scenarios are presented below:

**Hamersley Fines Price Forecast Comparison  
(nominal US¢/dm<sup>3</sup>)**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Base .....	61.73	73.46	77.13	69.42	61.55	53.23	49.92	51.21
High .....	61.73	73.46	80.80	78.78	76.52	71.82	67.81	63.55
% of Base .....	100.0%	100.0%	104.8%	113.5%	124.3%	134.9%	135.8%	124.1%
Low .....	61.73	73.46	69.78	61.06	53.00	45.45	46.56	47.69
% of Base .....	100.0%	100.0%	90.5%	88.0%	86.1%	85.4%	93.3%	93.1%

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Base .....	52.54	53.91	55.31	56.76	58.24	59.76	61.33	62.93
High .....	65.21	66.90	68.64	70.43	72.27	74.16	76.10	78.10
% of Base .....	124.1%	124.1%	124.1%	124.1%	124.1%	124.1%	124.1%	124.1%
Low .....	48.86	50.05	51.28	52.54	53.83	55.15	56.51	57.90
% of Base .....	93.0%	92.8%	92.7%	92.6%	92.4%	92.3%	92.1%	92.0%

Source: CRU

**Cost Competitiveness**

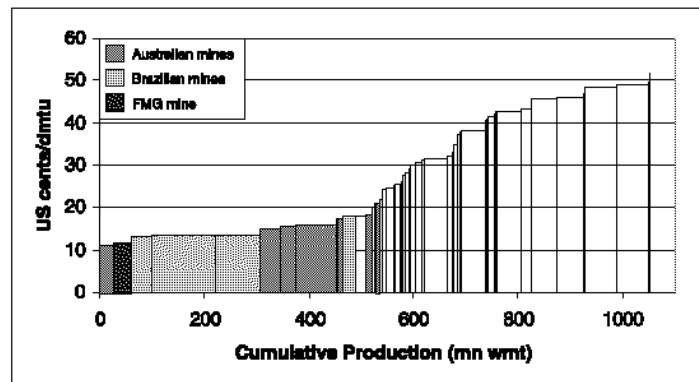
CRU uses the concept of “site costs” to assess the relative efficiency of different mines in terms of the costs that are directly controlled by the managers of the mine and associated rail and port operations. This concept can also be employed for detailed benchmarking projects and an assessment of the technical effectiveness of a mine. It includes all the cash costs incurred from paying royalties, through the mining and beneficiation of the ore, its delivery to the port and the loading of the vessel at the FOB point. It includes an allowance for typical annual sustaining capital costs and the interest costs associated with supplies, stores and intermediate stockpiles. Site costs does not, however, include any subsequent costs for marketing, financing of goods in transit and receivables or any adjustments for the effect of the quality and location of the ore on its value.

In evaluating the competitiveness of the Project Group’s Cloud Break and Christmas Creek mines, CRU analysed site costs for two individual years:

- 2008—to examine the competitiveness of the Project in its first year of part-production; and
- 2011—to examine the competitiveness of the Project in a year of full-production.

The following chart displays the predicted site cost supply curve for fines in 2008. It must be noted that the site costs are based on the ore production and not the total sales for the year. Any ore remaining will be stockpiled for sale in future years.

**Iron ore fines Site Cost Curve (2008)\***



Source: CRU

\* Site costs include all the cash costs incurred from iron ore mining to the FOB point.

The cost curve clearly displays that the majority of the curve is flat and dominated by large scale producers in Australia and Brazil. The Australian mines are concentrated in the Pilbara whilst the Brazilian mines are mainly found in Minas Gerais. Mines in both areas are mainly controlled by the Rio Tinto, BHP Billiton and CVRD and utilize multiple pits and efficient transport infrastructure to drive down costs below 20 US¢/dmtu.

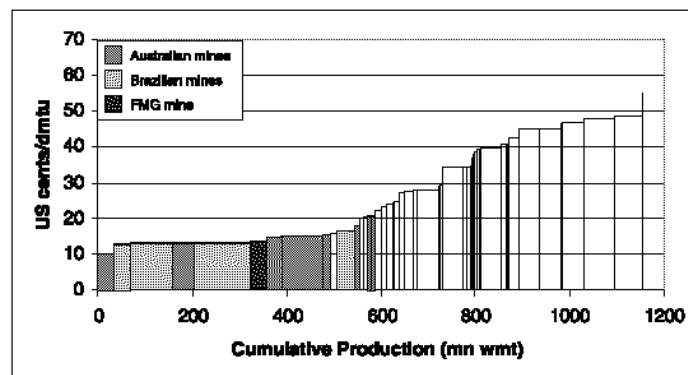
The Cloud Break mine will start production in 2008 and will be in ramp up phase during 2008. Planned ore production will be 54 mt in 2008 with 35 mt of sales consisting of 22.5 mt of High Grade Fines product and 12.5 mt of Super Value Fines product. There will be no lump production during 2008.

The Cloud Break mine will be mined first by the Project Group and ranks second lowest on the cost curve below the major Brazilian incumbents and slightly above BHP Billiton's Area C mine in the Pilbara. The mine benefits from producing a quality product in large volumes thus benefiting from significant economies of scale. Though the infrastructure has a high capital cost, the mine will have the advantage of being the sole user and owner, thus allowing maximum gains in efficiency to be realized.

It is important to highlight that the majority of iron ore mines in the world use the standard mining techniques of drilling, blasting followed by loading and haulage. However, the Project Group intends to use surface mining equipment adapted from the coal industry which so far has never been used in the iron ore industry. By using this method the Project Group will obviate the need for drilling and blasting operations as well as primary and secondary crushing. This reduces their mining operating costs, and will give them a considerable competitive advantage to similar sized mining operations in the Pilbara region.

The following chart displays the predicted site cost supply curve for fines in 2011.

**Iron ore fines Site Cost Curve (2011)\***



Source: CRU

\* Site costs include all the cash costs incurred from iron ore mining to the FOB point.

In 2011 the Christmas Creek mine will be operated simultaneously with the Cloud Break mine. Ore production will total 59 mt whilst planned sales will be 45 mt. This total will consist of 8 mt of High Grade Lump, 22 mt of High Grade Fines and 29 mt of Super Value Fines.

The Project is placed in an advantageous position on the curve as the sixth lowest producer of fines in 2012 with comparable operating costs to the Brazilian operations and lower cost than the majority of the other operations within the Pilbara.

It is important to note that the curves displayed are not full supply curves as they only contain representative operations from Russia and do not include the majority of captive mines that do not participate in seaborne trade. Thus the Project ranks well in the 1st quartile of global iron ore producers.



Because the site cost concept does not include marketing and financing costs and quality/location value adjustments, it cannot be compared directly with a price forecast and used to understand the relative risk to the free cash flow of different mines with respect to possible price changes. The relative market position of the Project cannot be gauged solely by its site costs. It is also necessary to take into account the value proposition that the Project presents to its customers.

Steel companies are interested in the effective cost of iron ore in the blast furnace. This consists of four main elements:

- the basic fob price charged for the ore;
- the cost of freight from the loading port to the steelworks;
- the blast furnace production costs that are related to the chemistry of the ore; and
- the effect of the chemical and physical properties of the ore on blast furnace productivity.

CRU has evaluated the relative attractiveness of the Project's ores against a representative cross section of ores from competing companies in West Australia as well as long-term contract exporters from Brazil, South Africa and India from the point of view of an importing steelworks at a Far East coastal location.

Data on the contract prices of different ores was obtained for the contract year 2005 from the Tex Report, which specifically evaluates the ores traditionally exported to the Far East in detail. This source also provides data on the actual chemistry of the ores delivered. For the purposes of this analysis CRU have assumed that relative fob price relationships remain stable—that is each supplier receives the same percentage increase or decrease going forward (as has happened in 2006). CRU have also assumed that quality remains unchanged.

The cost of freight depends partly on the grade of the iron in the ore, but also on the free moisture content, which is much higher for Indian and some Brazilian ores than for those from West Australia. Freight rates were obtained from a CRU model that uses time charter rates, vessel size data and fuel prices to compute effective freight costs. 2005 rates are well above long-term averages and are considered likely to fall as the world shipbuilding industry is responding strongly to current freight rates and the new vessel purchase decisions that these have triggered.

Impurities cause blast furnace operators to incur extra costs in treating slag, and in the case of phosphorous, may also have a significant cost impact at the steelmaking stage. CRU compare different ores on the basis of the penalties that apply to Brazilian (MBR) ores sold into Japan, which are particularly valued by steelmakers for their low impurity levels.

Finally furnace productivity is impacted by the grade of iron (after sintering). Lower grade ores tend to translate into lower blast furnace productivity. CRU's approach to valuing this assumes that any iron units lost due to lower productivity are made up by the addition of scrap units at the subsequent steelmaking stage. This is a reasonable assumption in the Far East, particularly China, where scrap rates are much below European and North American norms and where scrap availability will soon start rising as obsolete Chinese consumer durables start entering the scrap pool over the next 5-7 years.

These calculations result in an estimate of the “user cost” of different kinds of iron ore in the Far East. The ranking is summarized below.

#### Commercial attractiveness of ores in the Far East

<u>Supplier</u>	<u>2008 Cost \$/t Fe*</u>	<u>Rank</u>	<u>2011 Cost \$/t Fe*</u>	<u>Rank</u>
Fortescue Super Value .....	82.07	4	64.51	3
Fortescue High Grade .....	81.57	3	64.65	4
Hamersley System .....	84.28	6	65.56	6
Mt Newman .....	84.52	7	65.78	7
Robe River .....	77.16	2	62.11	1
Yandi .....	82.86	5	65.30	5
Carajas .....	89.01	9	73.69	10
Caemi .....	89.19	10	73.27	9
Sishen .....	76.31	1	62.73	2
Bailadilia (India) .....	85.54	8	67.58	8

Source: CRU

\* Cost represents estimated “user cost” reflecting FOB iron ore price, cost of freight, blast furnace production costs related to chemistry of the ore and the effect of chemical and physical properties of the ore on blast furnace productivity.

The Project’s High Grade Fines product is the third most attractive ore of the 10 major sources identified and the Super Value Fines product is the fourth most attractive. The Robe River pisolite ore is somewhat more attractive than the Project because of the aggressive discounting of the fob price that has been used to gain acceptance for a material that is fundamentally more difficult to use than any of the Project’s proposed products. The Sishen product is also more attractive, but most Sishen material is sold as lump, so the fines volumes involved are extremely small. Consequently, CRU believes that the Project represents the “best value” product available to Far East steel mills of any of the major volume producers.

At times of high demand for iron ore, when supply is insufficient to meet demand, far east mills are willing to pay higher effective prices to use ores from distant locations like Brazil because the alternative of not producing the iron—and possibly the steel as well—represents an opportunity cost that is in excess of the cost penalty incurred. However, when, as CRU expects, the market becomes balanced, mills will undoubtedly seek to lower costs by reducing the volumes they purchase from those suppliers who represent the highest effective cost—that is the least attractive suppliers in terms of this ranking. For strategic reasons, as well as from chemistry (blending) considerations, CRU does not expect to see Brazilian ores disappear from the far east, but we will probably see pressure on Brazilian prices and volumes as well as those from India and even the traditional Australia benchmark suppliers, before we see pressures on the Project Group.

## PROJECT RESERVES AND RESOURCES

The Project's current JORC reserve estimate is approximately 1.05 billion tonnes, of which 121 million tonnes are classified as proved reserves and 933 million tonnes are classified as probable reserves. The overall reserve estimate has an average Fe grade of 58.6%; however, there is a high grade portion of 359 million tonnes that has an average grade of 60.5% Fe.

The current total reserve and resource estimates for the Mine Plan Tenements are summarized below.

### Christmas Creek Reserves

<u>Category</u>	<u>Mt</u>	<u>Fe %</u>	<u>SiO<sub>2</sub> %</u>	<u>Al<sub>2</sub>O<sub>3</sub> %</u>	<u>P %</u>	<u>LOI %</u>
High Grade						
Provable .....	177.0	60.5	3.40	2.00	0.051	6.9
Super Value						
Provable .....	442.0	57.7	5.20	2.70	0.049	7.6
<b>Total .....</b>	<b>619.0</b>	<b>59.1</b>	<b>4.3</b>	<b>2.35</b>	<b>0.05</b>	<b>7.25</b>

### Cloud Break Reserves

<u>Category</u>	<u>Mt</u>	<u>Fe %</u>	<u>SiO<sub>2</sub> %</u>	<u>Al<sub>2</sub>O<sub>3</sub> %</u>	<u>P %</u>	<u>LOI %</u>
High Grade						
Proved .....	68.6	60.5	2.78	1.63	0.049	8.34
Provable .....	112.9	60.5	3.07	1.94	0.052	7.66
Super Value						
Proved .....	52.0	57.6	5.20	2.41	0.051	8.65
Provable .....	200.5	57.6	5.00	2.81	0.060	8.43
<b>Total .....</b>	<b>434.0</b>	<b>59.05</b>	<b>4.0125</b>	<b>2.1975</b>	<b>0.053</b>	<b>8.27</b>

### Christmas Creek Resource

<u>Category</u>	<u>Mt</u>	<u>Fe %</u>	<u>SiO<sub>2</sub> %</u>	<u>Al<sub>2</sub>O<sub>3</sub> %</u>	<u>P %</u>	<u>LOI %</u>
Hardcap Mineralization						
Inferred .....	21	57.1	5.72	3.37	0.040	7.75
<b>Total .....</b>	<b>21</b>	<b>57.1</b>	<b>5.72</b>	<b>3.37</b>	<b>0.040</b>	<b>7.75</b>
Bedded Iron (no cut-off used)						
Measured .....	2	57.9	4.39	2.91	0.044	7.02
Indicated .....	665	57.4	4.94	2.82	0.053	7.77
Inferred .....	211	57.0	4.65	2.61	0.063	8.15
<b>Total .....</b>	<b>878</b>	<b>57.3</b>	<b>4.87</b>	<b>2.77</b>	<b>0.055</b>	<b>7.86</b>
High Grade Mineralization Bedded Iron (no cut-off used)						
Measured .....	4	61.5	2.73	2.00	0.035	6.11
Indicated .....	424	60.2	3.26	2.01	0.051	7.46
Inferred .....	76	60.8	3.16	1.84	0.061	6.26
<b>Total .....</b>	<b>503</b>	<b>60.3</b>	<b>3.24</b>	<b>1.99</b>	<b>0.053</b>	<b>7.27</b>
Channel Iron (reported below 3.5% Al <sub>2</sub> O <sub>3</sub> cut-off)						
Inferred .....	13	58.0	3.33	2.30	0.043	9.98
<b>Total .....</b>	<b>13</b>	<b>58.0</b>	<b>3.33</b>	<b>2.30</b>	<b>0.043</b>	<b>9.98</b>
Total						
Measured .....	6	60.1	3.38	2.36	0.039	6.47
Indicated .....	1,089	58.5	4.29	2.50	0.052	7.65
Inferred .....	321	58.0	4.32	2.47	0.060	7.76
<b>Total .....</b>	<b>1,415</b>	<b>58.4</b>	<b>4.30</b>	<b>2.49</b>	<b>0.054</b>	<b>7.67</b>

## Cloud Break Resource

<u>Category</u>	<u>Mt</u>	<u>Fe %</u>	<u>SiO<sub>2</sub> %</u>	<u>Al<sub>2</sub>O<sub>3</sub> %</u>	<u>P %</u>	<u>LOI %</u>
Bedded Iron (no cut-off used)						
Measured .....	52	57.56	5.13	2.47	0.053	8.68
Indicated .....	328	57.34	4.96	2.91	0.062	8.57
Inferred .....	74	57.07	4.86	2.88	0.060	8.15
<b>Total .....</b>	<b>455</b>	<b>57.32</b>	<b>4.96</b>	<b>2.85</b>	<b>0.060</b>	<b>8.51</b>
High Grade Mineralization Bedded Iron (no cut-off used)						
Measured .....	92	60.47	2.77	1.62	0.050	8.36
Indicated .....	232	60.29	3.03	1.91	0.055	8.00
Inferred .....	39	61.25	3.28	1.84	0.045	5.90
<b>Total .....</b>	<b>363</b>	<b>60.44</b>	<b>2.99</b>	<b>1.83</b>	<b>0.053</b>	<b>7.86</b>
Channel Iron (reported below 3.5% Al <sub>2</sub> O <sub>3</sub> cut-off)						
Inferred .....	32	58.90	3.22	2.54	0.053	8.98
<b>Total .....</b>	<b>32</b>	<b>58.90</b>	<b>3.22</b>	<b>2.54</b>	<b>0.053</b>	<b>8.98</b>
Total						
Measured .....	144	59.41	3.63	1.93	0.051	8.47
Indicated .....	561	58.56	4.16	2.49	0.059	8.33
Inferred .....	145	58.60	4.07	2.52	0.054	7.73
<b>Total .....</b>	<b>850</b>	<b>58.71</b>	<b>4.05</b>	<b>2.40</b>	<b>0.057</b>	<b>8.25</b>

## JORC Reporting

Mineral reserves and resources referred to in this offering memorandum are reported in accordance with the Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves 2004 Edition (“JORC Code”), which has been incorporated into the Australian Stock Exchange Listing Rules. When reserves and resources are reported under the JORC Code, the ore reserve figures (tonnage and grade) are included within the mineral resource figures (tonnage and grade). Chichester’s reserves and resources are publicly reported according to the JORC Code.

The JORC Code recognizes a fundamental division between resources and reserves. Resources are based on mineral occurrences quantified on the basis of geological data and an assumed cut-off grade, and are divided into measured, indicated and inferred categories reflecting decreasing confidence in geological and grade continuity. No allowances are included for dilution and losses during mining, but the reporting of resource estimates carries the implication that there are reasonable prospects for eventual economic exploitation. Resources may therefore be viewed as the estimation stage prior to the application of more stringent economic criteria for reserve definition, such as a rigorously defined cut-off grade and mine design outlines, along with allowances for dilution and losses during mining. Under this system of reporting, it is common practice for companies to include in the resource category material with a high expectation of conversion to reserves, but for which final technical and economic viability has not been determined.

Ore reserves as defined by the JORC Code are the economically mineable part of measured or indicated resources. Ore reserves are designated as proved and probable, and are derived from the corresponding measured and indicated resource estimates by including allowances for dilution and losses during mining. It is an explicitly stated further requirement that other modifying economic, mining, metallurgical, marketing, legal, environmental, social and governmental factors also be taken into account. Reporting conventions that may be adopted are to report resource estimates as including that portion separately assigned to the proven and probable category, or to report resources as additional to that portion separately assigned to the proven and probable category.

The reserve and resource estimates provided in this offering memorandum comply with the reserve and resource definitions of the JORC Code. The resource estimates shown include that portion separately assigned to, and presented as, proved and probable reserves.

Information contained in this offering memorandum relating to reserves and resources from the Mine Plan Tenements is drawn from the Snowden Report and contains estimates of reserves and resources as of July 2006, unless otherwise stated. Information contained in the Snowden Report relating to reserves and resources has been prepared according to the JORC Code. The Snowden Report is included in this offering memorandum as Appendix A.

### ***Competent Persons***

The above ore reserve summary is based on information compiled by James Williams, who is a Fellow of the Australasian Institute of Mining and Metallurgy. He is also Head of Mining at Fortescue. Mr. Williams has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration to qualify as a Competent Person (as defined in the JORC Code). He consents to the inclusion of the reserve information in the form and context in which it appears.

The above mineral resources summary is based on information compiled by Michelle Franks, Doug Kepert and Stuart Robinson, who are all Members of the Australasian Institute of Mining and Metallurgy. Ms. Franks is employed by Snowden and Mr. Kepert and Mr. Robinson are employed by Fortescue. Each of Ms. Franks Mr. Kepert and Mr. Robinson has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration to qualify as a Competent Person. Each of Ms. Franks Mr. Kepert and Mr. Robinson consents to the inclusion of the mineral resources information in the form and context in which it appears.

### **United States Definitions**

Under the current United States requirements as adopted by the SEC in its Industry Guide 7, a “reserve” is defined as “that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination.”

“Proven (measured) reserves” are defined as reserves for which (a) the quantity is computed from dimensions revealed in outcrops, trenches, workings or drillholes and grade or quality is computed from the results of detailed sampling; and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well established.

“Probable (indicated) reserves” are defined as reserves for which quantity and grade or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

One principal difference between the reporting regimes in Australia under the JORC Code and in the United States under the requirements as adopted by the SEC in its Industry Guide 7 is the absence in the United States of any provision for the reporting of estimates other than proven (measured) or probable (indicated) reserves. There is, therefore, no equivalent for “resources” under the SEC Industry Guide 7. Additionally, while the Project Group can declare proved and probable reserves under the JORC Code, presently the Project Group would not be permitted to declare proved and probable reserves under the SEC’s Industry Guide 7. Before a mineral deposit can be classified as a reserve under Guide 7, it must be capable of being legally and economically extracted. Presently, the Project Group does not have full tenure and authorizations in respect of the Project to legally and economically extract and produce the ore, although the Project Group is working to put the tenure and authorizations in place. In addition, the SEC is more restrictive on pricing methodologies applied to determine reserves than under JORC.

## BUSINESS

### Overview of the Project

Fortescue seeks to become a major new producer and supplier in the global iron ore market with a particular focus on Asia.

Fortescue and the Project Group are developing a project (the "Project") that involves (1) constructing and operating iron ore mines (Cloud Break and Christmas Creek) in Western Australia to produce an initial targeted amount of 45 million tonnes per annum ("mtpa") through Chichester and (2) constructing and operating rail and port infrastructure through TPI to transport and load the iron ore for shipment to customers in Asia.

The Project is located in the iron ore rich Pilbara region of the State of Western Australia ("Western Australia"). This region contains one of the world's largest iron ore resource bases. Over the past 40 years, approximately 3,500 million tonnes ("mt") of iron ore have been shipped from the region and, in 2005, exports from Western Australia accounted for 30% of the world's total seaborne traded iron ore.

The unprecedented recent and forecast economic growth of China and recent positive improvements in the economies of Japan, Korea, Thailand and India are collectively driving the requirement for a significant "uplift" in the supplies of construction and fabrication materials to support and sustain that growth. On average, each tonne of steel produced requires 1.6 tonnes of iron ore. Asia does not currently have available abundant supplies of local high quality iron ore to feed their current and projected demand. CRU (an international management consulting company specializing in the international metals, mining and electricity industries) forecasts Asia's iron ore demand to more than double over the next 15 years. Based on BHP Billiton's and Rio Tinto's public announcements, the expected demand for Pilbara iron ore would outstrip supply from the major Australian producers. Fortescue believes that this predicted shortfall in supply provides the Project with a significant opportunity.

Fortescue expects to sell the vast majority of its off-take to Chinese customers and the remainder to other Asian customers, particularly in Japan and Korea. As China is the major iron ore growth market in Asia, Fortescue has focused more of its marketing efforts on supplying this increased demand than on seeking to displace existing suppliers in other Asian countries.

Fortescue's marketing strategy has been to focus on Chinese mills that:

- (1) based on recent expansions and government approvals to expand are expected to have sufficient scale and opportunities for a long-term supply arrangement;
- (2) have a history of successful off-take agreements with major seaborne suppliers such as BHP Billiton, Rio Tinto and Companhia Vale do Rio Doce ("CVRD"); and
- (3) are located on the coast or have major river access and, hence, are well located to accept imported ore.

A feasibility study for the port and rail system (including the ore crushing and screening plant) of the Project was completed by WorleyParsons on September 8, 2005 (the "Infrastructure Feasibility Study"). A definitive mine feasibility study was completed by Fortescue as a compilation of studies by professionals and independent consultants on April 19, 2006 (the "Mine Feasibility Study" and, together with the Infrastructure Feasibility Study, the "Definitive Feasibility Study"). The Definitive Feasibility Study provides the basis for capital and operating costs of the Project and must be read in the context of the express qualifications in respect of the Definitive Feasibility Study and its constituent elements as set out in "Risk Factors" and elsewhere in this

offering memorandum, and also the disclaimers, qualifications and assumptions set out in each of the Infrastructure Feasibility Study and the Mine Feasibility Study. ProMet Engineers Pty Ltd, an engineering firm based in Perth, also provided estimates for the operating costs of the rail and port activities. Winters, Dorsey and Company, LLC (“WDC”), a U.S. engineering company, has been retained to provide an independent review of the capital and operating costs of the Project for purposes of this offering memorandum.

The Project will comprise open cut mining at the Christmas Creek and Cloud Break deposits principally utilizing bucket wheel excavators and conveyors for overburden removal and surface miners and conveyors for iron ore mining, with a conventional crushing and screening plant to conform the iron ore to the required product sales specifications. A 260 kilometre railroad with loading and unloading facilities and rail loops at each end will be constructed between the initial mine at Cloud Break and a new port facility to be constructed at Port Hedland, which is on the north west coast of Western Australia. The new port facility at Port Hedland will comprise a stockpile area, stackers and reclaimers, associated conveyor equipment, a ship loader to a berth and lay-by berth to facilitate exports from the port.

The Project will be undertaken principally under the auspices of two Western Australia State Agreements: (1) the Mining State Agreement, which will regulate the mining operations and (2) the Infrastructure State Agreement, which regulates the rail and port operations. The State Agreements will provide the main legal underpinnings of the Project and govern how the Project in many material respects is to proceed.

The vast majority of construction for the Project will be managed through an integrated project team consisting of the Project Group’s own personnel and personnel provided by WorleyParsons pursuant to an overarching Engineering Procurement and Construction Management contract (“EPCM Contract”). TPI and WorleyParsons have formed an integrated Project delivery team (“Team 45”) with the goal of bringing maximum transparency and control to the construction process. Mining-related construction and operation will be undertaken by Roche Mining Pty Ltd (“Roche”) under an alliance contract with Chichester and PMA. Connell Wagner Pty Ltd (“Connell Wagner”) is a large and experienced engineering consultant in the Asia-Pacific region that is expected to be engaged as Independent Engineer to act in conjunction with the Trustee on behalf of the holders of the Senior Secured Notes. Connell Wagner has agreed to engage WDC as a consultant.

Considerable design and preliminary development work has been completed, including geological work, product quality testing and a Definitive Feasibility Study in relation to the mines and the port and rail systems. Preliminary earthworks associated with the construction of the port began in February 2006 and port dredging activities commenced in July 2006. Pending receipt of certain governmental approvals, earthworks associated with the development of the rail system are expected to begin in the third quarter of calendar 2006. Trial mining was conducted between November 2005 and January 2006 and construction of the mine facilities is expected to commence in the last quarter of calendar 2006. The first ore is expected to be shipped in the first quarter of calendar 2008, with final commissioning and testing of the infrastructure facilities expected to be completed in March 2008. Key schedule dates are as follows:

**KEY SCHEDULE DATES**

	Jun 06	Jul 06	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	
<b>Port</b>		Bunds (1 <sup>st</sup> Stage for Dredging) Dredging - Start		Marine Structures - Finish Loading Berth 1 (Ready for Ship Loader)						Complete South End Bulk Earthworks (Machine Assembly Area)		Complete Dredging						Train Unloader - Complete Dry Commissioning			Wet Commissioning Train Unloader / Sucker / Stockpiles Load 1 <sup>st</sup> Ship		
<b>Rail</b>				Start Rail Earthworks	Marshalling Yard Complete								Start Track Laying	Complete All Bridges				Rail Earthworks - Finish Track Laying - Finish	Load First Train				
<b>Mine</b>		Bulk Earthworks Start			Start Concrete Works									Finish Crushers Deliveries	Finish S/M/E Installation	Finish Power Supply		Finish Train Loader	First Ore On Train (ROOT)				Project Complete

Fortescue has invested approximately A\$183 million in pre-construction activities to develop the Project from 2003 through June 2006. The total estimated construction costs for the rail and port facilities are A\$1,922 million and A\$550 million has been estimated for the initial mining equipment, including a crushing and screening plant at Cloud Break. Included in these estimates is an A\$198 million risk provision contingency.

It is anticipated that these costs will be funded through (i) the net proceeds from the Offering of the Senior Secured Notes, (ii) US\$300 million from the placement (the "Leucadia Placement") of 26,400,000 ordinary shares of Fortescue to Leucadia National Corporation ("Leucadia"), (iii) the issue of US\$100 million of unsecured subordinated notes (the "Leucadia Subordinated Notes") to Leucadia by Chichester and (iv) equipment leasing arrangements.

Leucadia is a New York Stock Exchange listed holding company that owns a variety of businesses and investments, including in manufacturing, telecommunications, real estate activities and agricultural operations. As at March 31, 2006, Leucadia reported cash and marketable securities for new investments of approximately US\$2.1 billion. For the year ended December 31, 2005, Leucadia reported revenues of US\$1.04 billion and had total assets of US\$5.3 billion and common shareholders' equity of US\$3.7 billion.



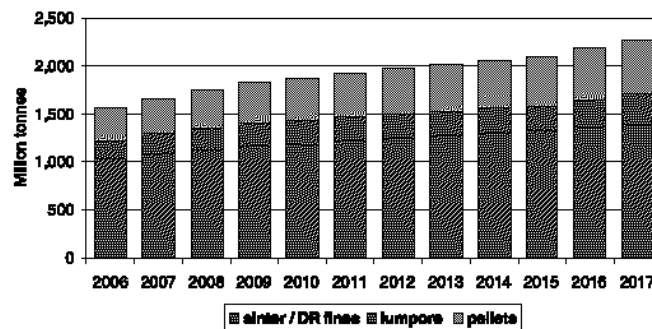
## Project Strengths

### Strong iron ore market

Both current and forecast levels of global demand for iron ore present a good opportunity for the Project to secure a long term market position. According to CRU, between 2005 and 2020, world consumption of iron ore is expected to increase by 975 mt, which is an average of 61 mtpa. CRU calculates that this would require an additional iron ore operation of a scale of the Project to be developed and to come into production every year between now and 2020.

The principal driver of this growth in demand is China. For this reason, China is the Project's principal target market. From 2001 to 2005, China's consumption of iron ore grew from 327 mt to 678 mtpa, an increase of 107%. To put this in perspective, total world consumption of iron ore grew from 1.03 billion tonnes to 1.45 billion tonnes from 2001 through to 2005, representing an increase of 41%. CRU predicts that by 2020, China alone will consume 1.36 billion tonnes of iron ore and will account for 50% of the global consumption of iron ore.

Global breakdown of estimated iron ore consumption by product



Source: CRU

The iron ore supply industry is characterised by high barriers to entry. The global seaborne trade in iron ore is currently dominated by CVRD from Brazil, Rio Tinto and BHP Billiton, both from Australia, each of which has established proprietary infrastructures to access the seaborne market. These three companies together account for more than 70% of the seaborne iron ore trade. As the currently known iron ore reserves are primarily in areas with limited access, any start-up iron ore producer has to have available large scale capital resources to build their own access infrastructure. This has hindered independent small-scale producers of iron-ore. Consolidated supply dominated by these large producers, effective price negotiating mechanisms, and rational supply side response have led to historical long-term stability and profitability for iron ore suppliers.

The generally lower quality and higher cost of Asian produced iron ore compared to that which is available from Australia means that the primary limit of sales volumes out of Australia should be the capacity of Australian producers to expand production and infrastructure capacity.

The pricing mechanism for the Project's iron ore is based on a long standing industry process whereby the major international suppliers of iron ore (Rio Tinto, BHP Billiton and CVRD) negotiate annually with certain of the world's major steel mills to establish a benchmark price for their premium products. Once the price is agreed for the premium products, pricing adjustments are then made for all other ore types in the market to reflect relative performance and quality differences from the premium products.

The following table shows CRU's base case forecast for benchmark prices for Rio Tinto's Hamersley iron ore.

**CRU Iron Ore Price Forecasts—Base Case**

<u>(US c/dmtu, nominal)</u>	<u>Basis</u>	<u>2005<sup>1</sup></u>	<u>2006<sup>1</sup></u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Avg Growth 2005-2012</u>
Hamersley Fines . . . . .	fob Dampier	61.7	73.5	77.1	69.4	61.6	53.2	49.9	51.2	-2.6%
Hamersley Lump . . . . .	fob Dampier	78.8	93.8	96.1	86.5	76.4	66.0	63.1	64.8	-2.8%

<u>(US c/dmtu, nominal)</u>	<u>Basis</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Avg Growth 2013-2020</u>
Hamersley Fines . . . . .	fob Dampier	52.5	53.9	55.3	56.8	58.2	59.8	61.3	62.9	2.6%
Hamersley Lump . . . . .	fob Dampier	66.6	68.4	70.3	72.2	74.2	76.3	78.4	80.6	2.8%

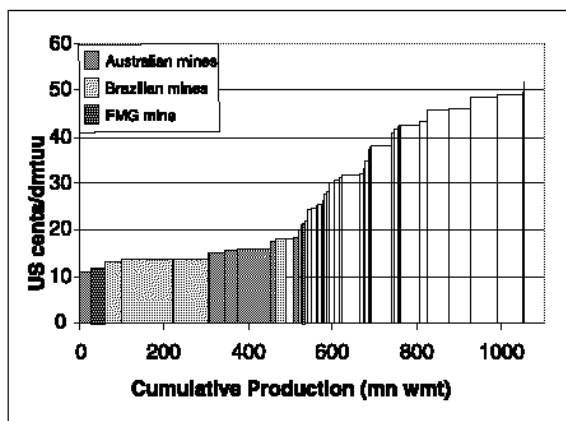
Source: CRU

CRU provided an independent analysis of the iron ore market and the relative value and marketability of Fortescue's products for purposes of this offering memorandum. See "Industry Overview."

**The Project is expected to be a low cost producer of iron ore**

The Project is expected to be one of the lowest cost producers in the world on a free on board ("FOB") basis.

**Iron ore fines site cost curve (2008)\***



Source: CRU

\* Site costs include all the cash costs incurred from iron ore mining to the FOB point.

With freight representing a significant portion of the landed cost, the Pilbara's proximity to key Asian markets should provide a location advantage over other competing seaborne export countries, such as Brazil and South Africa, from which transportation costs are higher. CRU predicts that the Project's iron ore will be more attractive to Far East steel mills than that of most other major volume producers due to its performance characteristics, productivity and the Project's location advantage.

The following chart demonstrates CRU's predictions of the commercial attractiveness of fines ores in Asia.

#### Commercial attractiveness of fines ores in the Far East

<u>Supplier</u>	<u>2008 Cost \$/t Fe*</u>	<u>Rank</u>	<u>2011 Cost \$/t Fe*</u>	<u>Rank</u>
Fortescue Super Value .....	82.07	4	64.51	3
Fortescue High Grade .....	81.57	3	64.65	4
Hamersley System (Pilbara) .....	84.28	6	65.56	6
Mt Newman (Pilbara) .....	84.52	7	65.78	7
Robe River (Pilbara) .....	77.16	2	62.11	1
Yandi (Pilbara) .....	82.86	5	65.30	5
Carajas (Brazil) .....	89.01	9	73.69	10
Caemi (Brazil) .....	89.19	10	73.27	9
Sishen (South Africa) .....	76.31	1	62.73	2
Bailadilia (India) .....	85.54	8	67.58	8

Source: CRU

\* Cost represents estimated "user cost" reflecting FOB iron ore price, cost of freight, blast furnace production costs related to chemistry of the ore and the effect of chemical and physical properties of the ore on blast furnace productivity.

#### Long life production profile

Current reserve estimates provide for a minimum Project mine life of approximately 20 years at an ongoing production rate of 45 mtpa. As reported in May 2006, the Project's JORC reserve portfolio comprises approximately 1.05 billion tonnes of reserves, of which 121 mt are proved reserves. The Project's JORC resources total approximately 2.3 billion tonnes, of which only those resources classified as either measured (144 mt) or indicated (1,370 mt) have been incorporated into the reserve study. The Project Group expects to continue to convert resources to reserves from within its existing resource base as the Project progresses.

For more detailed information on the Project reserves and resources, see "Project Reserves and Resources" and the Snowden Report at Appendix A of this offering memorandum.

#### Favorable performance characteristics of Project's iron ore products

The Project's mining tenements predominantly are within the iron ore formation type known as Marra Mamba. Marra Mamba ore is becoming increasingly important in Western Australia as the longstanding and very successful premium Brockman ore style products are expected by the Project Group to diminish in quality and economically mineable quantities. Marra Mamba ore is capable of producing lump in similar proportions to Brockman ore and typically provides for a low phosphorous product that is desired by Asian steel mills. In addition, the drill results for large parts of the Project's mining tenements show evidence of the advantageous characteristic known as microplaty hematite, which is also a key component of certain of the premium Brockman ores. Microplaty hematite is highly desired by Asian steel mills because it provides certain chemical and physical property benefits which generally improve sinter and blast furnace throughput and productivity over similar ores without microplaty hematite.

The Project initially plans to produce a product named High Grade Fines typically containing approximately 60.2% Fe and a product named Super Value Fines typically containing approximately 58.7% Fe. In the third year of production, the Project plans to produce a product named High Grade Lump typically containing approximately 61.1% Fe.

The Project's fines products are expected to be competitive on a chemical grade with other similar Australian fines products. To provide perspective on the grade of iron ore currently sold by Australian producers, in 2004 Australian producers sold approximately 210 mt of iron ore of which 84 mt (40%) had a Fe grade below that of the Project's High Grade Fines product. Further, 62 mt (30%) of the 210 mt of iron ore sold had a Fe grade below that of the Project's Super Value Fines product. This demonstrates that the Project's target product Fe grades are within current Pilbara exported product Fe grades.

Bulk test samples were used to generate simulated lump and fines products allowing sinter test work to be completed with Central South University in China ("CSU") and Australia's Commonwealth Scientific and Industrial Research Organisation ("CSIRO"). Nineteen steel mills (including 15 in China) have also evaluated the Project's sample products. The CSU test work compared the Project's sample product with a range of other iron ores from competitors and the results confirmed the commercial appeal of the Project's product type. Importantly, the results showed the technical competitiveness to customers of using the Project's ore in preference to certain other Australian ore types that are currently imported into China. Sinter test results from CSU showed that the Project's High Grade Fines product compares favorably to other Australian Marra Mamba fines ores. The Project's Super Value Fines product has also been tested by CSU and showed a higher performance compared to certain existing Australian fines channel iron products. Similarly, the Project's High Grade Lump product has been independently tested by SGS Lakefield Ore Test, and confirmed by the Project Group to have physical and metallurgical properties that are comparable to other Australian Marra Mamba lump ores.

### **Significant customer contracts**

To date, Fortescue has been successful in marketing its products to customers with over 80% of the Project's planned off-take already committed under contract. Fortescue and the Project Group have negotiated and executed contracts for 39.5 mtpa (based on a targeted annual production of 45 mtpa) under 28 contracts. Twenty-seven contracts are with Chinese steel mills and the other is with China's largest privately owned scrap metal merchant. These contracts include seven of the top 10 mills and 11 of the top 20 mills in China by steel production.

Fortescue and the Project Group have chosen to date not to commit to contracts for all of its expected first phase production volume so as to retain some flexibility in relation to choice of customer and product.

Pricing in the contracts is based upon an adjustment to the annual benchmark price of Rio Tinto's (Hamersley Iron) premium Brockman lump and fines products. The Project's relative pricing is 97% for the High Grade Lump product, 95% for the High Grade Fines product and 90% for the Super Value Fines product.

CRU has confirmed these adjustments are appropriate for pricing the Project's products. Furthermore, CRU believes that over time, when the market becomes more balanced in supply and demand, the steel mills will seek to lower costs by reducing the volumes they purchase from suppliers who represent higher effective cost. In those circumstances, CRU expects to see pressures in Asia on Brazilian prices and volumes as well as those from India and the traditional Australian benchmark suppliers. CRU believes the Project is well positioned to manage these pressures due to the competitive effective cost of its products.

### **The Project has low technical construction risk**

The Project Group considers that the nature of the technical construction risk for the Project's port, rail and mine facilities is low. The building of large scale port and rail facilities within the Pilbara has a history of over 40 years and is expected to be a relatively straightforward process for the Project Group. Although the Project Group has not previously undertaken a project of this scale, the Project will utilize experienced contractors and proven equipment. The construction methodologies and materials are well proven, with many precedents for their application within the Pilbara region.

## **The Project Group's contracting strategy**

To mitigate construction risk, the Project Group's contracting strategy is based on a managed construction philosophy with the Project Group directly entering into multiple second level contracts in relation to the Project's construction, rather than operating through a fixed price EPC contractor arrangement. This strategy is expected to enable the Project Group to monitor construction progress and costs more closely. The Project Group believes that having direct relationships with second level contractors will facilitate direct communication and enable potential issues to be identified sooner. The Project Group's strategy also diversifies contract risk, with no single contract accounting for more than 12% of the total value of construction contracts.

The Project Group has entered into and will enter into a variety of construction contracts, including lump sum contracts, schedule of rates contracts and alliance based contracts. Lump sum contracts, which are expected to represent approximately 44% of the total value of construction contracts, provide the highest level of cost certainty. A number of the critical contracts, including the rail earthworks and EPCM contracts, have alliancing elements, where the benefit of early completion and below budget construction is shared between the Project Group and the contractor. These contracts include incentive based payments that align the interests of the contractor with that of the Project. The Project Group believes that alliance based contracts also increase transparency and provide flexibility in relation to scope, which encourages contractors to deliver the optimal outcome and reduces the likelihood of contractor disputes and litigation. The Project Group expects alliance based contracts to represent approximately 17% of the total value of construction contracts. The balance of contracts are expected to be based on schedules of rates and represent approximately 39% of total value of construction contracts.

Procurement arrangements are well advanced with major engineering, construction and fabrication groups and equipment suppliers. The Project Group has executed six of 20 material Project construction contracts valued at A\$625 million, which accounts for 44% of the total value of the 21 material Project contracts. These include contracts with BGC Contracting Pty Ltd in relation to the rail earthworks, Jan De Nul N.V. in relation to the dredging, China South Locomotive & Rolling Stock Industry (Group) Corporation in relation to the ore wagons, FFE Minerals (Australia) Pty Ltd and FFE Minerals (USA) Inc. in relation to the crushers, Metso Minerals (Australia) Limited in relation to the train unloader and WorleyParsons in relation to the engineering procurement and construction management. In addition, Fortescue considers it has substantially negotiated contracts in relation to the reclaimer, stacker and shiploader, the locomotives, the railway steel, the railway sleepers, and bridge construction.

## **Liquidity Support, Contingencies and Allowances**

The capital structure of the Project Group includes significant liquidity support that is designed to help provide financial protection for unforeseen delays in construction and commissioning and cost overruns. The Project financing plan includes a contingency reserve of A\$549 million ("Cost Overrun Contingency Amount") represented by a A\$51 million design growth allowance, a A\$198 million risk provision contingency and a A\$300 million cost overrun reserve.

The design growth allowance of A\$51 million has been determined by Team 45 on a contract-by-contract basis to address unforeseen aspects of the Project that may require changes to the engineering design or the incomplete nature of certain aspects of the engineering design.

The risk provision contingency of A\$198 million has been determined by Team 45 on a contract-by-contract basis and is designed to address four risk criteria: duration risk, which relates to construction delay; contract risk, which relates to the likelihood of unforeseen variation under each contract; industrial relations risk; and wet weather risk. None of this contingency has been used to date.

The A\$300 million cost overrun reserve provides the Project with funding if a series of unforeseen events negatively affect the construction process beyond the protection provided by the A\$198 million risk provision contingency. These funds can be applied to meet any unforeseen cost of the Project, provided that the Project Group works within the framework of the Indenture, which requires the review, reporting and oversight of the Independent Engineer. None of this contingency has been used to date.

**Cost Overrun Contingency Amount as a Percentage of Forecast Project Capital Costs**

	(A\$ millions)	Cost Overrun Contingency Amount %
Remaining capital cost before contingencies <sup>(1)</sup> . . . . .	2,415	23%
Remaining capital cost before contingencies excluding executed material lump sum contracts (A\$264 million as at July 21, 2006) . . . . .	2,151	26%
Remaining capital cost before contingencies excluding executed and expected material lump sum contracts and initial mining fleet (A\$981 million) . . . . .	1,434	38%

(1) Remaining capital cost to be spent before contingencies represents: Infrastructure (A\$1,522 million) plus A\$156 million of remaining cash from Bridge Loan drawings not spent plus Mining (A\$550 million) plus Working Capital (A\$187 million).

The Project Group also intends to obtain a Project Specific Contract Works Material Damage Insurance Policy and a Contract Works Delay in Start Up Policy. The coverage will indemnify the insured party for material loss or damage to certain assets caused by an insurable event (e.g., fire, cyclone, flood, accidental damage), including a maximum amount of A\$100 million for any resulting long term (over 60 days) delay in the commencement of normal business operations of the Project for a period of up to 12 months. Such delay in start-up insurance is designed to help the insured party service debt (albeit not in accordance with scheduled payment dates) and pay other pre-agreed standing charges associated with the delay in commencement of the business, but not for loss of profit. Any such insurance obtained by the Project Group would contain customary terms, conditions, deductibles and exclusions.

In addition, the Indenture will require FMG Finance to deposit in a Debt Service Reserve Account an amount of proceeds from the Offering equal to two years of estimated interest due on the Senior Secured Notes. With the first ore expected to be shipped in the first quarter of calendar 2008 following 18 months of construction, approximately six months of the pre-funded Senior Secured Notes interest would remain to protect holders of Senior Secured Notes against any delay of up to six months in the generation of revenue.

**Straightforward operational methods for both mining and infrastructure**

Fortescue and the Project Group will operate the rail and port infrastructure and PMA will operate the mines in conjunction with Roche pursuant to their alliance contract. The Project’s team includes experienced constructors and operators of port and rail infrastructure in the Pilbara. Roche is one of Australia’s largest mining contractors.

The rail and port system benefits from being a greenfield development in that modern technology has been applied in the planning and design process, which should deliver efficiencies and facilitate expansion opportunities. Optimized gradient and curvature in the railroad and also modern port systems should provide operating and maintenance cost advantages. The area that has been allocated and is currently being developed for the port stockpile and ship loading facility at Port Hedland is approximately 67 hectares in size and will provide for substantial expansion opportunities above the Project’s initial design production of 45 mtpa. There is the further advantage that the port site is not constrained by urban development that currently represents a constraint for the existing port operations within the town of Port Hedland.

From a mining perspective, the Project will take advantage of the horizontal nature of the iron ore deposit and the ability to access the ore zone without the need to remove substantial overburden. This factor has been taken into account in the Project mine plan where mining has been scheduled to commence across several pits within the two main mining areas at any given time. The relatively easy access to the ore zone and the fact that it exists as a gently dipping ore body is expected to enable the use of low cost mining techniques, facilitating efficient recovery of ore and improved grade control, which should aid the ability to deliver on-specification product.

### **Experienced management**

The Project will be managed under the Services Agreement between Fortescue and the Project Group (the “Services Agreement”). The Project Group has significant experience in major project development and operations, including iron ore mining and port and rail infrastructure in the Pilbara. Some background on the experience of some of the key executives and organizations involved in the project is as follows:

Mr. Gordon Toll (Fortescue Chairman) was involved in the development of iron ore projects in the Pilbara while working with BHP Billiton and Rio Tinto from the 1970s to the 1990s. He was involved in the development of Ore Body 29, which was the first Marra Mamba mining operation established in the Pilbara. Mr. Graeme Rowley (Executive Director Operations) worked for Rio Tinto for 23 years and was General Manager of Hamersley Iron’s iron ore port and rail system in the Pilbara for over six years. Mr. Alan Watling (Head of Infrastructure) was manager of Hamersley Iron’s heavy haul rail operation in the Pilbara and has spent more than 15 years in heavy haul rail operations. Mr. Bill Ramsey (Project Director) has extensive experience in project and construction management from concept through to commissioning. He has worked on several major resource projects in Western Australia (including iron ore projects) and has international project experience in Saudi Arabia. Dr. John Clout (Head of Resource Strategy) spent 12 years as a scientist at the CSIRO, where he did consulting and research work for certain of Australia’s large iron ore mining projects on subjects including the improvement of iron ore product quality, product blend design, ore beneficiation and optimization of product from the mine to the steel mill. Dr. Clout has a network across international steel mills and is an adjunct Professor in Mineral Processing at the University of Queensland in Australia and China Central South University in China.

Additionally, the key project partners in WorleyParsons and Roche have extensive experience in resources project work. WorleyParsons is a leading provider of professional services to the energy, resource, and complex process industries, with over 60 offices in 30 countries in the Americas, Asia, Europe, Middle East, and Australia and over 12,000 employees. It is one of the world’s largest providers of Program Management Consultancy and Integrated Project Management Team services. In the past five years, it has managed projects with a total installed cost of more than US\$20 billion and has more than twenty years experience in the metals and minerals sector. Roche mining already provide mining services under alliance arrangements in Australia. Roche is experienced in open cut mining and mining project control. Entities within the broader Roche group provide related services, including metallurgical testing, engineering design and construction.

### **Potential for third party revenues**

The port and rail assets of the Project are being developed on an “open access” basis whereby third parties will also be eligible and encouraged to use these facilities. The concept of open access is a requirement of the Infrastructure State Agreement. Internal studies by Fortescue and the Project Group have identified a number of companies that have mining tenements in the vicinity of the proposed railway. These companies are considered to be potential customers of the rail infrastructure given the estimated savings that have been calculated by the Project Group comparing the relativities of rail haulage to road haulage within the Pilbara. Any as yet unforecasted revenues from third parties would provide additional cash flow into the Project beyond those that have been assumed under the Project Group’s Base Case Model.

## **Good Relations with Government**

Fortescue has established a close and effective working relationship with the State Government of Western Australia, which has the main oversight of Project development and eventual operations. The two key components of the Project—the infrastructure (port and rail) and the mining—are each subject to an executed agreement with the State Government, being the Mining State Agreement and the Infrastructure State Agreement. The Project has established a series of management plans and processes which are designed to ensure that it conducts its business within the conditions for the project operations set by the State Government. Fortescue's decision to support Western Australian government policy and allow the Project's infrastructure to be open access as well as the scale of the potential State Government iron ore royalty stream has facilitated strong support for the Project from the Western Australian government. At Australian Federal Government level, the Project has received "Major Project Facilitation Status", which provides such projects with access to a specific contact point within an Australian Federal Government department to assist project proponents to procure any Australian Federal Government approvals that may be required.

## **History of the Project**

Fortescue increased its focus on exploration and evaluation of its iron ore tenements in the Pilbara region of Western Australia during 2003. Fortescue has Australia's largest iron ore tenement portfolio, which encompasses some 34,000 square kilometers, including the Mine Plan Tenements.

During early 2004, Fortescue began an exploration and drilling program in the Chichester Range, targeting enriched iron ore in the Nammuldi Member at the base of the Marra Mamba Formation. A major reverse circulation drilling program began in April 2004. During the course of 2004, Fortescue discovered the Cloud Break and Christmas Creek orebodies and began intensive drilling and a series of mineral resource modeling and estimation exercises.

In July 2004, WorleyParsons was appointed study manager for the Infrastructure Feasibility Study. The Infrastructure Feasibility Study was issued September 8, 2005.

On November 10, 2004, TPI, Fortescue and the State of Western Australia entered into a State Agreement in relation to the development of a multi-user railway and multi-user port facilities in the Pilbara Region. The agreement was ratified by the State Parliament of Western Australia in the "Railway and Port (The Pilbara Infrastructure Pty Ltd) Agreement Act 2004" ("Infrastructure Act") on December 8, 2004. The Infrastructure State Agreement became operative on December 1, 2005, when the Iron Ore (FMG Chichester Pty Ltd) Agreement was entered into by Fortescue, Chichester and the State of Western Australia (except for certain parts). The Infrastructure Act facilitates the process for construction and operation of the railway from Cloud Break to the port at Port Hedland and the construction of port infrastructure on land vested in the Port Hedland Port Authority on the proviso that the relevant Ministerial consents are obtained.

In late 2005, Fortescue, Chichester and TPI signed land access agreements with the Aboriginal people of Nyiyaparli, Palyku and Kariyarra groups, being the registered native title claimants identified in the region of the proposed Project tenure ("NTCPs"). Under the agreements, the NTCPs consented to "whole of claim" tenure for the life of the Project in exchange for certain consideration, including various royalties based on the amount of iron ore produced, transported on the Railway and shipped from the Port, an ongoing vocational training and education royalty and a royalty on any other minerals produced from the Mine Plan Tenements.

On October 3, 2005, project approval (in the form of approval under the *Environmental Protection Act 1986* from the Western Australian Minister for the Environment ("State Environment Minister")) for Stage A of the Project was received, followed by approval on December 16, 2005 for Stage B. Approval for Stage C was received from the State Environment Minister on April 24, 2006 and from the Australian Minister for the Environment ("Federal Environment Minister") on July 17, 2006. A number of environmental licenses and



approvals are still required for the various stages of the Project. Stage A includes the development of port facilities in Port Hedland and the mainline north-south rail corridor from Port Hedland to just north of the Chichester Range. Stage B includes an east-west railway corridor extending from the mainline east along the footslopes of the Chichester Range to the Christmas Creek Resource and the mining tenements comprising the Christmas Creek deposit in the Chichester Range. Stage C includes the mining tenements comprising the Cloud Break deposit in the Chichester Range.

On December 1, 2005, Fortescue, Chichester and the State of Western Australia entered into the Mining State Agreement which governs the process by which it is proposed that Chichester will be granted regulatory approvals required to undertake mining activities on the Mine Plan Tenements. The Mining State Agreement has not yet been ratified by the Upper House of the State Parliament of Western Australia and most of the provisions of the Mining State Agreement will not become operative until enacting legislation is ratified by the Upper House of the Western Australian Parliament. The Mining State Agreement accommodates the Project Group's plans for an initial production target of 45 mtpa of marketable iron ore and provides for possible expansion subject to approval from the Mining Minister.

On January 11, 2006, several mining leases comprising the Mine Plan Tenements were granted by the Department of Industry and Resources in Western Australia for over 95% of the total estimated mineral resources.

On February 3, 2006, Fortescue and TPI entered into an agreement relating to commencement of preliminary works at Port Hedland with the Port Hedland Port Authority to permit preliminary earthworks including site preparation for dredging and preparation of the laydown area to commence. A groundbreaking ceremony was held on February 8, 2006. The agreement was subsequently varied to permit the commencement of dredging operations and dredging commenced in July 2006.

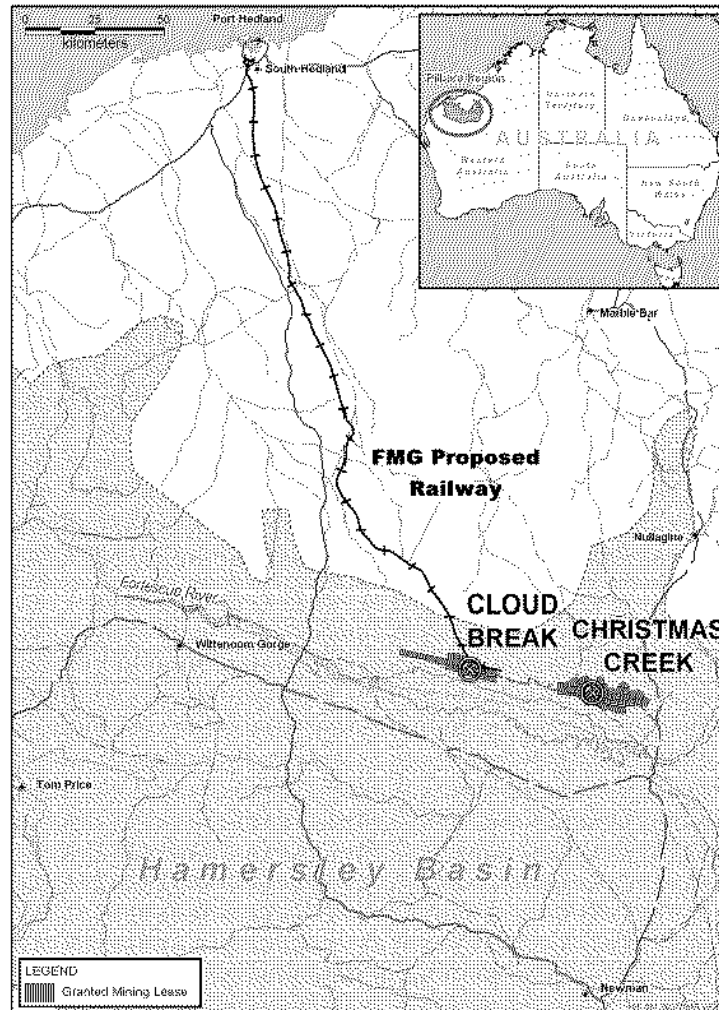
In January 2006, Fortescue and WorleyParsons entered into the EPCM contract, which provides for the establishment of an integrated project management team (Team 45) comprised of representatives of Fortescue and WorleyParsons (which contract was amended to place obligations upon both TPI and Fortescue on May 19, 2006).

In June 2006, the Project Group and Roche entered into a long term mining alliance to share risks associated with the operation and maintenance (and some construction) of the development and commissioning of Chichester's mine facilities in the Pilbara.

## **Location**

The Mine Plan Tenements are located in the Chichester Range, approximately 260 kilometers from Port Hedland and 350 kilometers from Dampier in the Pilbara region of Western Australia. Western Australia's Pilbara region has one of the world's largest contained iron ore resource bases within the mineral province known as the Hamersley Basin. Approximately 3.5 billion tonnes have been shipped from the region over the last 40 years. Cloud Break is the Hamersley Basin's closest major known deposit of iron ore to Port Hedland. The Christmas Creek deposit is situated some 50 kilometers to the east of Cloud Break. Collectively, the Mine Plan Tenements cover an area of approximately 507 square kilometers, over which more than 363 square kilometers have been granted, which contain approximately 95% of estimated mineral resources and most of the reserves.

Construction access to the mining area at Cloud Break will be via the Great Northern Highway (a sealed road) from the town of Newman in Western Australia. A 60 kilometer access road (unsealed) between the Great Northern Highway and Cloud Break will be constructed. Access to Christmas Creek will be via the unsealed Marble Bar Road and then a private 15 kilometer unsealed access road. An airstrip will be constructed at Cloud Break for the transport of construction and operating personnel and visitors.



### Regional Geology and Mineralization

Most of the iron ores used for production of iron and steel in the world are mined from Archean to Proterozoic (geologically ancient) banded iron formations (“BIF”). The iron-bearing sedimentary rocks of the Hamersley Province, an area also referred to as the Pilbara, in Western Australia are outstanding examples of oxidized BIF. Australia is the world’s second largest miner and exporter of iron ore. Most of Australia’s iron ore production comes from the Hamersley Province where hypogene and supergene processes have enriched oxidized BIF. The Hamersley Province covers some 80,000 square kilometers of the southern half of the Pilbara region and contains over 95% of Australia’s iron ore reserves. The Cloud Break and Christmas Creek iron ore deposits are enriched oxidized BIF.

In the Hamersley Province of Western Australia much of the iron ore mined to date occurs as bedded BIF within the Hamersley Group of rocks located along the south flank of the Pilbara Craton. Historically, the vast

majority of all iron ore production from bedded deposits has been from the Brockman Iron Formation which lies near the base of the Hamersley Group. This formation hosts high-grade, low phosphorus iron ore. The Hamersley Group stratigraphy is uniform both in thickness and lateral extent over several hundred kilometers.

BIFs in the Hamersley Province have formed as finely laminated (millimetric to centimetric), alternating iron-rich (magnetite) and iron-poor (chert) bands. Typically, these primary units can average 20% to 45% Fe and only become ore grade (greater than 55 to 57% Fe) when they have been enriched by subsequent geologic processes.

Basically two styles of BIF-hosted iron ore mineralization are recognized in the Hamersley Province:

- Martite—microplaty hematite. This style of mineralization is attributed to a subsequent hypogene overprint on the original, primary BIF. Until recently, it was only known to occur within certain structural zones in the southern, folded part of the Hamersley Province. The high grade low phosphorous microplaty ores, typically containing around 65% Fe, 0.06% phosphorous, less than 2% alumina and minimal combined water, have been the mainstay of iron ore production in the Pilbara until the last decade. Its high sintering strength and low degradation have made microplaty Brockman lump ore highly desirable as a direct blast furnace feed. These microplaty Brockman ores, which originally constituted 5% of the entire regional resource, are now over 70% depleted.
- Martite—goethite plus martite-ocherous goethite. Well developed in deposits hosted in both the Marra Mamba Iron Formation and the Brockman Iron Formation, however, the mineralization hosted by the Brockman Iron Formation is typically detrimentally high in phosphorous. This style of mineralization is attributed to a subsequent supergene overprint on the primary BIF.

The majority of mineralization developed in the Chichester Range is a sub-horizontal sheet of typical supergene martite—ocherous goethite enrichment. The results of the Project Group's exploration program revealed that mineralization was not confined to supergene processes but that a proportion also contains microplaty hematite. The great majority of these microplaty hematite deposits are hosted by the Brockman Iron Formation, except for those hosted by the Marra Mamba Iron Formation in the Newman region and the extensive series of lenses the Project Group discovered in the Chichester Range. This style of mineralization had not been previously documented anywhere in the Hamersley Province in weakly deformed rocks such as the Chichester Range. The Project Group subsequently identified similar prospective zones via a combination of mapping, remote sensing and geophysical targeting of zones that may preferentially host microplaty hematite mineralization.

### ***Marra Mamba Iron Formation***

Bedrock iron ore mineralization is hosted by the Brockman and Marra Mamba Iron Formations of the Hamersley Group. The Marra Mamba Iron Formation, amongst other areas, outcrops along the Chichester Range which defines the northern margin of the Hamersley Province. The vast majority of iron ore mineralization identified to date within the Project occurs in the Marra Mamba Iron Formation, and specifically, within the lower to middle portion of the approximately 80-meter thick Nammuldi Basal Member, located at the very base of the Hamersley Group. This mineralization is located stratigraphically approximately 500 meters below the Brockman Iron Formation.

Marra Mamba ores were mined at comparatively low volumes in the Pilbara from 1978 to 2001. Since 2001 their market share has grown rapidly and in 2004 Marra Mamba accounted for some 50 mt of which was approximately 24% of Australian iron ore production.

The upper Mount Newman Member of the Marra Mamba Iron Formation hosts iron ore mineralization at the Mount Newman, Mining Area C ("MAC"), and West Angelas mines. By comparison, the Project's Chichester Range mineralization is hosted by the lower Nammuldi member of the Marra Mamba Iron Formation.

As part of the Project Group's drilling campaigns at Christmas Creek, a number of wider spaced deep holes were drilled to understand the stratigraphy and possible controls on mineralization. Comparison of gamma profiles from this drilling with gamma profiles from elsewhere in the Hamersley Province shows a very good correlation and indicates that the Marra Mamba Iron Formation sequence of the eastern Chichester Range is limited to only the Nammuldi Member.

### *Chichester Range*

The Chichester Range trends west-northwest along the northern edge of the Fortescue Valley for approximately 200 kilometers and is known to be underlain predominately by the Marra Mamba Iron Formation. The Project Group's geologists initiated their exploration efforts at the far east end of the Range, where some scattered outcrops of iron ore occur. They followed these early indications westward and eventually discovered the Christmas Creek and Cloud Break deposits located about 60 and 100 kilometers west of the initial starting point. With the exception of Christmas Creek, bedrock outcrops are sparse west of the starting point, so that drilling was necessary to follow the mineralization trend. The Christmas Creek and Cloud Break deposits are really one, single, 80-kilometer long deposit, locally dissected by erosion caused by subsequent drainage.

In the Chichester Range, the Marra Mamba Iron Formation dips less than five degrees southerly and trends west-northwest, essentially parallel to the Fortescue Valley. In the Christmas Creek area iron ore crops out sporadically along with hardcap and detritals. However, further west at Cloud Break, virtually no iron ore crops out and surface material is predominately hardcap, unmineralized Nammuldi member rocks, and/or detritals.

### *Mineral Deposits*

The proposed Mine Plan Area consists of the Cloud Break and Christmas Creek deposits which outcrop to the north, strike essentially east-west, and dip flatly to the south.

At Christmas Creek and Cloud Break, the zone of enrichment of BIF to potential ore grade material follows the trend of the Nammuldi Member of the Marra Mamba Iron Formation and varies from five to nine kilometers wide and 80 kilometers long (with a 10-kilometer break where it has been significantly eroded by drainages). Potential ore grade material can range from about 1 meter to 25 meters thick and will average about seven meters thick. Better mineralized areas will average between eight and 15 meters thick. All mineralization dips approximately two to five degrees south.

Within the areas of enrichment, the shape and size of individual ore zones can vary widely because they have been formed largely by supergene processes that are greatly influenced by structures that have guided descending meteoric water. Much of the mineralization is in zones sufficiently large and connected to be well suited to large scale, bulk mining methods. However, significant tonnages may occur in ore zones whose size and shape requires loader and truck mining.

Mineralization in the Christmas Creek deposit occurs over an area approximately 39 kilometers along strike and up to 9 kilometers in width, from the surface to a depth of 117 meters. Channel iron deposit mineralization has a strike length of 3 kilometers and a width of 300 to 400 meters, occurring at depths of 12 to 48 meters below surface. There are 4 types of mineralization at Christmas Creek; hardcap mineralization; Nammuldi Member mineralization (>50% Fe cut-off grade), higher grade Nammuldi member (>57% Fe cut-off grade) mineralization and channel iron.

The Cloud Break deposit is located some 50 kilometers to the west of Christmas Creek. Mineralization in the Cloud Break deposit covers an area approximately 37 kilometers along strike by 5 kilometers in width, from the surface to 90 meters depth below surface. Mineralization ranges from 1 to 28 meters thick and is 7 meters thick on average. There are 3 types of mineralization at Cloud Break; Nammuldi mineralization (50% Fe cut-off), higher grade Nammuldi mineralization (>56% Fe cut-off) and channel iron.

### Exploration Model

In comparison with the remainder of the Hamersley Province, the Chichester Range geology was less understood and under explored. In early 2004 the Project Group began an exploration and drilling program in the Chichester Range, targeting iron enrichment developed in the Nammuldi Member at the base of the Marra Mamba Iron Formation. This identified four distinct zones of (hypogene) microplaty hematite enrichment overprinted by extensive supergene mineralization, which led the Project Group to reappraise the geological history of the Chichester Range area and characterize the possible structural and stratigraphic controls of the iron mineralization.

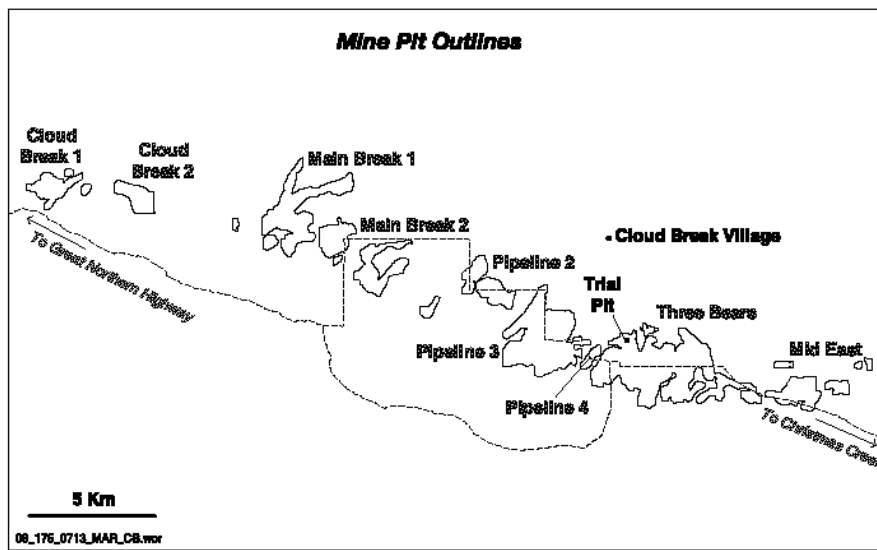
The final part of the exploration model that led to the Project Group's resource discoveries was the recognition that supergene mineralization was associated with a palaeotopography that continued significantly under cover to the south under sediments of the Fortescue River valley and therefore the extent of that mineralization was much larger than had been supposed by previous companies that explored in this region. A model for the landscape evolution and preservation of enriched Nammuldi Member was progressively generated in order to help communicate both the complexities involved with targeting drill holes beneath cover and the potential limits to the lateral extents of mineralization. The upside of continued exploration activity kilometers south of the outcrop was the discovery of additional zones of microplaty hematite mineralization.

The geological model detailing the development of the mineralization proved to be successful in driving the exploration and leading to the delineation of over 2 billion tonnes of resources in 18 months of exploration. At the end of December 2005, a total of 7,363 RC drill holes, aggregating 312,552 meters, 178 core holes aggregating 4,574 meters and 35 bulk sample holes aggregating 999 meters had been completed at Christmas Creek and Cloud Break.

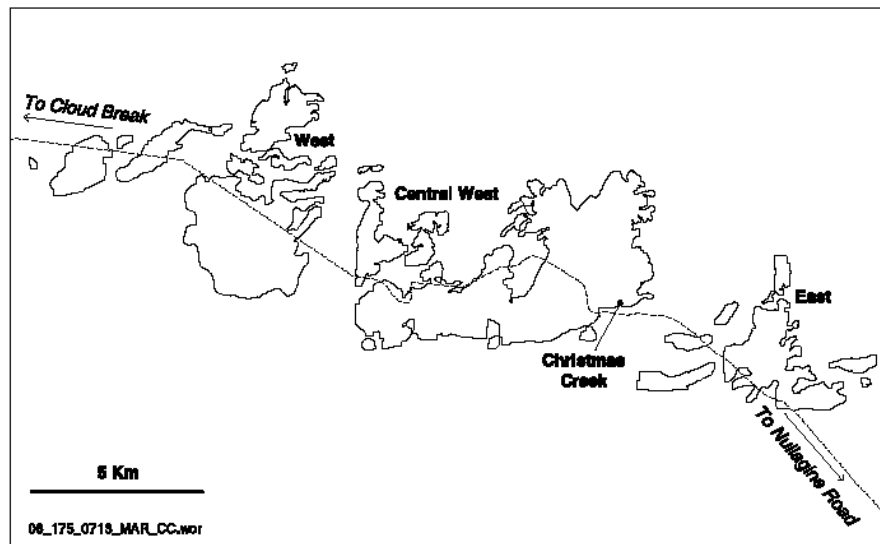
### Proposed Mining Operations

Over the life of the Project, the quantities intended for mining are 5,415 mt of material, consisting of 1,088 mt of ore plus 4,327 mt of waste. During the first two years of mining, two fines products of different iron grades will be produced: High Grade Fines at a typical grade of 60.2% Fe and Super Value Fines at a typical grade of 58.7% Fe. Currently it is planned that in the third year of production, the mine will also begin producing and shipping a High Grade Lump product at a typical grade of 61.1% Fe. Production is planned to ramp up within a 2 year period to a steady state of 45 million tonnes per annum. To achieve the production scheduled for the first year of operation, the Project Group plans to utilize two active mining locations to access ore from the Cloud Break deposit. Mine pit locations have been selected as below for both Cloud Break and Christmas Creek.

#### Cloud Break Mine:



## Christmas Creek Mine:



## Mining Methodology

Mining of the Christmas Creek and Cloud Break tenements will be done by surface mining methods. The position and structure of the iron ore mineralization in the Chichester Range allows for a strip mining process with the ability to back fill mined areas as excavations move along the mine length. The Cloud Break and Christmas Creek deposits dip flatly to the south and overburden depth does not exceed 40 meters. This geometry is suited to techniques such as those used in open cut coal mining. Mining will be carried out in “panels” with the long axis parallel to strike, and stripping will progress from west to east. The overburden will be removed first, followed by hardcap material, then ore. The ore bodies at Christmas Creek and Cloud Break are gently undulating sheets of mineralization which are easily accessible from multiple open pit operations at each locality.

Mining of the overburden will be initiated in a starting panel at the deposit edge. The panels are planned to be 200 meters wide by 300 meters long. When the overburden removal has advanced to the second 300 meter panel, hardcap waste mining will be initiated in the first panel to expose ore. Once the hardcap mining and overburden removal has progressed into the second and third panels, respectively, ore mining is planned to be initiated in the first panel. This three panel configuration will be advanced along strike, creating a strip up to four kilometers long. The initial strip will be developed by conventional shovel and truck mining, with waste hauled to dump areas outside the pit.

On completion of the overburden removal in the first strip, a second strip will be mined with waste from the second strip deposited behind the ore mining in the initial strip. Strips will be sequentially mined until physical or economic limits are reached. In areas with a suitable strike length for efficient operation, compact bucket wheel excavators with mobile stacking conveyors will be used for low-cost overburden removal. Ore mining and internal waste will employ surface miners and direct loading haul trucks for short-haul transport to an overland conveyor system connected to the plant and rail load out facilities. Other waste will be truck hauled to dump sites.

There is a hypersaline water table associated with the Fortescue Marsh to the south of the proposed mining operations which is deleterious to the ore products. The hypersaline water table is currently depressed below the proposed mining limits by an overlying wedge of fresh water. The southerly working areas, particularly Cloud Break, must be dewatered prior to mining and the Project Group plans to proceed with dewatering just ahead of mining with a series of vertical wells with the objective of keeping the hypersaline water depressed.

The ore mining fleet is based on surface miners. Surface miners operate on the principle that rock is much weaker in tension than in compression. They are used in coal, bauxite, gypsum, salt and limestone applications and are particularly suited for selectively mining horizontal or flatly-dipping thin seams, such as in the Project's operations. The advantages of surface miners in the Project include:

- The need for drilling and blasting is minimised;
- Reduced fines production relative to blasting;
- More consistent run of mine particle size;
- Primary and secondary crushing is mitigated;
- Improved ability to mine selectively and minimize waste dilution; and
- Relatively low capital cost per unit of product mined.

Overland conveyors will be used to transport ore from the Cloud Break and Christmas Creek mining areas to the crushing and screening plant that is located at Cloud Break. Branch conveyors will be used within active mining areas of both mines to limit ore truck haul distances to a maximum distance of one kilometer. All mining conveyors will be designed with a capacity of 6,500 tonnes per hour utilizing a conveyor belt of 1,400 millimeter width and speeds of 5.8 to 6.4 meters per second. The overland and branch conveyors will be built as needed over a period of fifteen years. Initially, the conveyor system will be installed near the initial mining areas at Cloud Break and extended west as Cloud Break mining progresses in that direction. As ore mining begins at Christmas Creek, the overland conveyor system will be extended to the east. Currently, it is planned that the overland conveyor will eventually extend about 25 kilometers to the west to the limits of the Cloud Break mine and 60 kilometers to the east for the Christmas Creek mine.

### ***Ore Preparation***

Iron ore produced from the Christmas Creek and Cloud Break tenements will be transported to stockpiles for further crushing and screening. Run of mine ore will be brought from the multiple mining areas at the Cloud Break and Christmas Creek deposits to a crushing and train loading facility that will be located at the Cloud Break mining area. Ore haulage from the mine areas will be transported with two overland arterial conveyors that are loaded with branch pit conveyors fed by haul trucks. The overland conveyors will generally discharge onto the main conveyor that feeds the crushing and screening plant. Out of grade material will be stored in small designated stockpiles. Because of the type of surface mining equipment selected, the ore will not require primary crushing as its top size will be approximately 150 millimeters.

The Cloud Break mine processing plant will be designed to produce three ore products: High Grade Fines, High Grade Lump and Super Value Fines. The High Grade Lump and High Grade Fines products will only require crushing and screening. The Super Value Fines will require an additional processing step to remove the naturally occurring high silica and high alumina fines. The Super Value Fines will be treated in a wet screening and cycloning plant to remove the less-than 0.1 millimeter particles which are higher in silica and alumina contaminants than the coarser fractions of ore. This process is referred to as desanding.

The ore will be conveyed to a screening and crushing plant to reduce the ore lump size. High Grade Lump will be reduced to a size of between 8 millimeters and 31.5 millimeters. Two fines products of different iron grades will be produced in the less-than 8 millimeter size after screening. A separate stockpile will be created for each type of product produced. Each stockpile will hold up to 30,000 tonnes of easily recoverable ore. Apron feeders will be located at the base of each stockpile and the products will be kept separate during train haulage to the port and ship loading. The feeders will connect to a collection conveyor and into a 2,000 tonne bin. A 240 car train can be loaded at 16,000 tonnes per hour in two hours.

During at least the first nine years of mining, no beneficiation of the ores is planned other than crushing, screening and desanding. The process of beneficiation may be required for the Christmas Creek ores and would

be undertaken through a plant that would be similar in form to others operating in the Pilbara. Beneficiation is a process required for some ores to extract certain contaminants from the ore, particularly alumina and silica. The ore is fed into the beneficiation plant and goes through a process of wet screening and jig separation to separate and then remove the contaminants from the original run of mine ore. The proposed Christmas Creek beneficiation will entail wet processing, utilising mostly gravity concentration. This wet beneficiation process is considered to be low risk as the process employed will be based on standard industry methodology using jig and spiral separators as well as possibly wet high intensity magnetic separation. All reject streams will be dewatered using current technology and transferred by conveyor to the mine and used to back-fill the pit excavation. Furthermore, as the resource grade of the feed to the beneficiation plant is similar to other operating plants in the Pilbara, the physical properties for beneficiation are well understood. The beneficiation plant is expected to cost A\$428 million and commence construction in 2014.

Ore from the train unloader will be transported to the port stockpile area by overland conveyor. A sample will be removed at a sampling station to determine ore grade. Initially there will be two rows of six 300,000 tonne active stockpiles and two rows of six 300,000 tonne contingent stockpiles. Ore products will be placed in the stockpiles in a manner that maximises the blending of ore in each individual stockpile. During the ship loading, the stockpile bucketwheel reclaimer will traverse the pile to continue blending product. The stockpile reclaimer will discharge onto a conveyor system for transport to the ship loader. Ore will be sampled prior to placement on the ship loader feed conveyor for determination of product quality. When lump is shipped, the ore will be rescreened prior to the ship loader feed conveyor to remove fines.

To enable the output of High Grade Lump, additional infrastructure will be installed in year three of operations. At the mine site, a transfer station and stacking conveyor will be installed from the screen house to feed lump to a stockpile that will be created at this time. This additional stockpile will be an extension of the established two fines stockpiles. At the port site, an additional two extra rows of stockpiles will be established to store lump. To facilitate the handling of this product an extra stacker and reclaimer will be commissioned along with an associated conveyor line. A screen house will also be established to screen fines (created through transport and handling after leaving the mine) out of the lump product before it is loaded onto ships. The Lump Circuit is expected to cost A\$235 million and commence construction approximately 12 months prior to first lump production in calendar 2009.

#### ***Dewatering & Water Management***

The water table at Cloud Break is relatively close to the surface and dewatering of the current mining face will be required. Ground water will be collected in a sump. Excess water will be pumped to evaporation and seepage ponds located over future mining areas.

The early stages of mining at Christmas Creek will be from above the water table in dry conditions. As mining progresses below this level, dewatering bores will maintain dry mining conditions. Where sheetflow zones are located immediately downstream from the pit area, diverted surface water will be discharged over a rock fill pad to disperse the flows.

Where diversion of upstream surface water runoff around the pit perimeters is not feasible due to topography, the surface water runoff will pond against external bunds and either be removed by pumping or allowed to dissipate by evaporation and seepage. In-pit sumps and pumps will be designed to manage any external surface water entering the pit, together with in-pit volumes.

To reduce water abstraction from the water supply bores, it is proposed that the in-pit water will also supplement process water. Upon completion of mining, the rehabilitated backfilled pit area would drain to the natural downstream environment.

The main use of water at the port is for dust suppression of the stockpiles. This water will be purchased from the utility company at Port Hedland. Water at the mine will be supplied from mine dewatering operations, water bore hole fields and water distribution systems constructed on site.



## Rail Infrastructure

The railway to serve the Project consists of a 260 kilometer single-track mainline connecting the minesite at Cloud Break to shiploading facilities at Port Hedland in Western Australia. The railway will have a 70 mtpa capacity, as required by the Infrastructure State Agreement, and will accommodate the Project's anticipated 45 mtpa based on the configuration of 4 train sets using 93% capacity of the trains. The proposed railway is based upon the practices of the existing BHP Billiton and Rio Tinto railways in the Pilbara. The proposed railway will run over much of its length in close proximity to the existing BHP Billiton iron ore railway. This proposed route, in addition to being the shortest route to Port Hedland for a major Pilbara iron ore deposit, will also minimize environmental impact on drainage, and soil types that support critical fauna and flora which need to be avoided from a geotechnical perspective.

The railway system can be split into two distinct segments being:

- The North-South line from the ship loading facility at Port Hedland to the junction near where the BHP Billiton iron ore railway line crosses along the Chichester Range; and
- The East-West line running along the Chichester Range out to the proposed mine site at Cloud Break.

The first stage of the rail network will commence at the port terminal with an unloading loop. It will be constructed to allow for a full train to arrive and commence unloading before the emptied train has departed. The design process will also provide for future duplication of the loop and train unloader to the inside of the current loop. The construction of the railway is estimated to take approximately 18 months. There will also be rail terminals at each mine loading site whereby the empty train will pass around the mine stockpile and park in an empty car spur prior to commencement of loading. The mine spur has also been designed to allow the empty train to arrive and commence loading before the loaded train has departed.

At the minesite, trains will be loaded in motion at about 1.5 kilometers per hour and will be unloaded at the port at 10,800 tonnes per hour. The train unloader at the port is designed for simultaneous unloading of two rail wagons. Ore from the wagons is dumped into a surge hopper and emptied by two apron feeders onto a conveyor. Train operations will employ up to four 200 to 240 wagon sets each hauled by two 4400 horsepower diesel locomotives. The ore wagons will be loaded to 40 tonne axle loads. On the uphill haul out of the mine, a two unit banker locomotive will be utilized. The locomotives and ore wagons have an expected life of approximately 25 to 30 years. The track infrastructure will begin to require curve rail replacements in 15 years.

At the port, a loop will service the train unloader, which will move the ore wagons through while the locomotives are moved to a marshalling yard to be serviced and refueled. Using a loop to access the train unloader also reverses the train's direction on each trip, better controlling wheel and rail maintenance. The ore wagons are positioned and moved through the unloader by indexing arm accelerations.

Fortescue and the Project Group have prepared earthworks specifications for the Infrastructure Project, including for the requisite culverts and pipe drains, rock works and revetment mattresses. Typical cross sections are included for cuts and embankments. Cut sections provide for burns and dressing at the tops of cuts to reduce rock fall and maintenance.

The designs for bridges and culverts were prepared for the Infrastructure Feasibility Study. The bridge loading is planned to handle 40-tonne axle loads. The bridge design uses a standard 25 meter deck girder span on single "T" pedestals founded upon a pile-supported concrete cap. The assumed pile foundations will be appropriate for some locations, but others will require drilled-in, socketed piling or spread footings. The proposed structure for crossing over the BHP Billiton railway contemplates a steel-through girder using pre-cast concrete deck. Heavy abutment walls to provide clearance for the railway underneath will be used. TPI intends to provide BHP Billiton with detailed proposals in respect of the rail crossing and will require BHP Billiton's consent to the crossing, which consent BHP Billiton may not unreasonably withhold if the rail crossing does not unduly prejudice or interfere with their operations.

Three standard culvert designs have been identified. These consist of a corrugated multi-plate arch, a field-assembled corrugated steel pipe and 300 millimeter pipe. These designs will be applied in single or multiple pipe applications depending on the hydrology at each site. The culverts will be provided with reinforced concrete bank protection and rock aprons at both inlets and outlets. The 300 millimeter steel pipes are planned for the embankment above the Fortescue Marsh to distribute environmentally sensitive sheet flow.

A specialized railway consulting firm advised on track design and materials. The track design includes:

- 68 kilogram per meter standard carbon rail;
- rail pads and spring clips;
- pre-stressed concrete sleepers for 40-tonne axle loads;
- 675 millimeter sleeper spacing;
- crushed rock ballast specifications; and
- 300 millimeter of ballast under the sleepers.

Track maintenance and rolling stock maintenance will be outsourced. It is expected that modern track maintenance equipment will be used. The contractor will also need track-laying machinery for the placing of sleepers on the formation and lifting the rails onto the sleepers.

The Project's communications system will include a backbone microwave system between Port Hedland and the mine site at Cloud Break. A network management system will be incorporated for fault maintenance, performance management, configuration management and security. The communications system will handle a land mobile radio system, railway signaling and asset protection, telemetry, telephony and IT networks. It is planned to be a fully integrated system for the operations of the mines, railway, port and administration. In the railway's applications in particular, the system provides for control of train movements, maintenance operations and fault protection. Control of train movements will be accomplished with electronic train orders delivered onboard the locomotives and remote control of the switch points at crossing loops, or in the marshalling yard.

### **Port Infrastructure**

The port facilities are intended to have the capacity to export 45 mtpa of iron ore and the berth and marine structures are intended to accommodate 50,000 DWT to 270,000 DWT vessels. The Port Hedland port was selected because it is an established port, provides the shortest haulage distance from the Mine Plan Tenements, has the capacity to be used as a multi-user port and will be able to accommodate the Project. Port Hedland is a large bulk export terminal serving the Eastern Pilbara region and its main export commodity is iron ore. It is Australia's largest port based on total annual tonnes throughput. Within Port Hedland, the Project Group selected Anderson Point as the area most suitable for the Project's port facility.

The channel depths of Port Hedland vary from 14.1 meters to 14.4 meters to make maximum use of the tidal range. The turning basin in the inner harbor is dredged to 14.4 meters. Because of the very large tidal range, which at times exceeds six meters, Port Hedland has introduced a clearance system to ensure that deeply laden, large iron ore carriers can obtain maximum use of the tide. Port Hedland occasionally experiences strong winds and to minimize wind forces, vessels are required to be ballasted. Ballasted vessels enter the port assisted with tugs and proceed to the port turning basin where they are turned 180 degrees before berthing.

The estimated export rate of 45 mtpa is based on ship loading berth 1 being occupied 82% of the time and the use of the lay-by berth 2 for ships entering and departing the terminal. Use of the lay-by berth is expected to minimise delays including those arising from waiting for appropriate tidal conditions for departure. Berth 2 could be developed to accommodate a travelling shiploader should the annual iron ore export volumes be increased beyond the initial 45 mtpa. Both berths will have a depth of 19.8 meters. The ship loading wharf will include the

support structure for the shiploader, trippers and conveyors, an access roadway, transfer tower, sub-station, pier head conveyor drive tower and a tie down area for the shiploader.

The proposed train unloader is a dual railcar rotary tippler type, designed for simultaneous unloading of two rail wagons. The primary purpose of the train unloading process is to unload the 240 wagon train and convey material to the stockyard. The locomotives will drive through the station until the first two wagons are positioned and clamped in the rail wagon tippler. The first two wagons are tipped at the same time and ore from each wagon will be dumped into a surge hopper, which is then emptied by two apron feeders onto a conveyor. The design of the train unloading circuit includes the train unloading conveyor that will convey the material to a transfer station for distribution to stockpile conveyors complete with integral traveling stacker. Only one stockpile conveyor and stacker will be installed during the initial construction. The second stockpile conveyor and stacker are planned for when the mine begins producing lump ore, currently estimated to be in the third year of production and is included in the Base Case Model cash flows.

The port stockyard will comprise four rows, with two rows of active stockpiles and two rows of contingent stockpiles. Each row will be serviced by a stacker, capable of stacking product in windrow type stockpiles, and by a common boom mounted bucket wheel reclaimer. The stackers and reclaimer will be fully automatic but will also have the capacity for manual override to allow transfer and setting up operations. Provision will also be made to enable blending facilities to be added in order to meet customer specifications.

The port construction is estimated to take approximately 22 months and will be undertaken in parallel with the railway construction.

The design of the maritime structures follows conventional designs similar to other iron ore exporting facilities in Western Australia. The design incorporates pile supported berthing and mooring dolphins acting independently to the pile-supported shiploader support structure, with an approach jetty to the shore. Navigation aids will also be included in the maritime work. The layout and size of the berthing dolphins, which are equipped with fenders, was determined primarily by ship size and spacing for satisfactory berthing.

## **Marketing and Sales**

The sales and marketing program for the Project has been principally targeted at the Chinese market, including both existing state-owned steel mills and newer privately-owned steel mills. While China is the driver of continuing growth in world demand for iron ore, Fortescue also recognizes the need for diversity. Given the Project's competitive advantage of proximity to the Asian markets, the Project has also focused marketing efforts on steel mills in Japan, Korea and Taiwan. It is anticipated that China will account for the vast majority of the Project Group's production.

Fortescue and the Project Group have negotiated and executed contracts for 39.5 mtpa (based on a targeted annual production of 45 mtpa) under 28 contracts, of which 27 contracts are with Chinese steel mills and the other is with China's largest privately owned scrap metal merchant. The contracts are based on supply terms ranging from 10 years to 22 years. The pricing mechanism for Chichester's iron ore is based on the industry standard of benchmark pricing relative to the premium Brockman products of Hamersley Iron and BHP Billiton with adjustments then made to reflect quality differences. CRU has confirmed this process as appropriate and the Project price forecasts as reflecting the Project's product quality specifications. Fortescue has chosen not to commit all of its expected production so as to retain flexibility in relation to choice of customer and product.

A key feature of Fortescue's marketing effort is its technical focus based on an emphasis on understanding and servicing the blast furnace and sintering needs of the steel mills. To this end, Fortescue has entered into a strategic alliance with Central South University (CSU), in Changsha, China, which has a specialty in resources technology. This ongoing cooperation agreement will not only include the testing of the Project's samples and the assessment of

suitability of the Project Group's products in Chinese blends, but the university will also assist in technical marketing and help consolidate technological acceptance for the Project's product in China through the following activities:

- delegate CSU experts to visit steel mills and collect technical information which will assist Fortescue to better target individual steel mills in accordance with their technical requirements;
- CSU will conduct sinter test work with typical Chinese blends in order to measure the product's sintering performance; and
- CSU experts will add value to technical marketing by visiting steel mills and disseminating test results as a sales tool.

Fortescue has been engaged in discussions with Japanese, Korean and Taiwanese steel mills since 2003 and has provided these mills with regular project updates. Fortescue's marketing team has also been building relationships with the major trading companies and providing them with technical updates. The Project Group believes that this technical marketing effort will result in securing offtake agreements in the Japanese and Korean market in due course. To that end, the detailed process of acceptance of new suppliers to Japanese, Taiwanese and Korean mills is arduous and long. However, Fortescue is now advanced to the point in testing where these mills have now affirmed the technical performance of the Project's High Grade Fines ores is within their requirements. Commercial discussions leading to agreement are expected to begin as well in the near term. The Project Group expects that this will lead to contracts with at least two and possibly more non-Chinese parties.

### ***Metallurgical Testing***

In reference to the above commentary on the technical aspects of the marketing program, Fortescue has undertaken extensive metallurgical testing of its proposed product. A customer sample program based on Christmas Creek ores resulted in sample collection from different geographical areas, ore types and grades across the deposit. In excess of 97 diamond drill holes from across the Christmas Creek deposit have been used to conduct detailed laboratory scale beneficiation tests on over 204 sample intervals. Over 7 tonnes of diamond core have been processed to date from Christmas Creek. In addition, around 500 tonnes of bulk sample have been collected from 15 bulk holes.

The trial mining program at Cloud Break from November 2005 to January 2006 produced approximately 44,000 tonnes of ore which is being progressively processed and is being forwarded to steel mills and others for testing. Prior to this material becoming available samples were drawn from diamond hole and bulk sample drilling. These drilling programs were designed to collect samples from different geographical areas, ore types and grades across the deposit.

The extracted material either through trial mining and drill sampling is being progressively crushed and the lump conditioned using a "drop tower", which is widely used in the Australian iron ore industry to simulate blasting and materials handling. The material is then subjected to further crushing and screening to produce a 32 millimeter lump and 6.3 millimeter fines iron ore product. From this work, the Christmas Creek lump/fines split demonstrated an average 45:55 lump/fines ratio and the Cloud Break material is averaging 40:60 lump fines. Such testing will be ongoing as it is a critical part of the overall product development program.

### **Insurance**

The Project Group plans to enter into a contracts works material damage policy with a group of insurers and a contract works third party liability policy, in each case covering each of the members of the Project Group with respect to liabilities related to the design, fabrication, construction, erection, testing and commissioning of (1) the port load out, conveying and stockpiling facilities excluding dredging and preliminary works, (2) the rail line, including five bridge crossings, but excluding civil engineering works associated with the rail line, and (3) the

crushing, screening, rail loading and mine infrastructure works. The general works material damage policy has a proposed indemnity limit of A\$750 million for any one loss and a natural hazards limit of A\$500 million, and the contract works third party liability policy has a proposed indemnity limit of A\$100 million. Both policies are expected to provide coverage from August 2006 to September 2008 plus twelve months for a maintenance and defects liability period. The contract works policy is not expected to cover some of the works related to the Project, such as bund construction and related earthworks, port dredging works, rail earthworks, the locomotive and rail wagon supply agreements for purchase and delivery of locomotives and rail wagons.

The Project Group is also negotiating a third policy covering damage during marine transit of materials and equipment for the Project which is intended to provide coverage until the completion of all shipments related to the construction of the Project.

The Project Group is also in the process of negotiating a delay in start up policy and a marine delay in start up insurance policy, to provide insurance for the continued payment of standing charges, including interest on indebtedness such as the Senior Secured Notes, in the event of a project completion delay arising from (1) covered loss or damage to certain Project assets caused by an insurable event (*e.g.*, fire, cyclone, flood, accidental damage) or (2) physical loss or damage to the property insured by the marine open cargo policy, respectively. An indemnity limit of A\$100 million has been proposed for the delay in start up policy. It is proposed that the insurers liability for any one claim under the delay in start up policy and the contract works material damage policy will be limited to A\$750 million combined over the two policies. A limit of A\$75 million has been proposed for the marine delay in start up policy.

Fortescue has general insurance, such as general liability and directors' and officers' insurance that, in some instances, covers its subsidiaries. Fortescue has a combined public and products liability insurance policy covering Fortescue and its subsidiaries, with an indemnity limit for any one originating cause of \$20 million. The policy has certain exceptions, including liabilities arising from the work of any contractor engaged by Fortescue.

Fortescue's workers compensation insurance policy covers only Fortescue and has an indemnity limit of \$50 million. The Project Group is presently making arrangements to get workers compensation insurance for the members of the Project Group other than Fortescue.

### **Potential Expansion**

While the Project contemplates the production of 45 mtpa of iron ore, it is possible, after a sustained period of production at 45 mtpa, that the Project Group may consider expanding production to up to 90 mtpa. Any such expansion would be subject to obtaining necessary regulatory approvals and financing for additional infrastructure, particularly at the port. There can be no assurance that the Project Group will seek to expand production beyond 45 mtpa or, even if it did, whether it could obtain the necessary regulatory approvals and financing.

## FORTESCUE

Fortescue was incorporated in 1983 in the Australian State of New South Wales under the name Oakwood Enterprises N.L. and is listed on the Australian Stock Exchange. It subsequently changed its name to Allied Mining and Processing Ltd (“Allied Mining”).

In 2003, Allied Mining increased its focus on exploring for iron ore and developing a transport infrastructure platform to move iron ore from within the Hamersley province of the Pilbara region to a ship loading facility at Port Hedland (*i.e.*, the Project). Allied Mining restructured its assets and changed its name to Fortescue Metals Group Ltd. The gold assets were divested and The Metals Group Pty Ltd (a company controlled by Andrew Forrest) took a controlling position in Fortescue after injecting its iron ore assets and a new management team. Andrew Forrest was appointed Chief Executive Officer and Interim Chairman. In October 2003, a new Board of Directors was elected.

Allied Mining had a number of subsidiaries that were not related to the Project, which have subsequently been divested. In August 2003, Allied Gold Ltd was listed as a separate company on the ASX and in November 2005, the shares in Allied Medical Limited were distributed to Fortescue’s shareholders.

Since 2003, Fortescue has been focused on exploration and evaluation of its iron ore tenements in the Pilbara Region of Western Australia.

In addition to its interest in the Project, Fortescue also owns a 50% interest in the Mindy Mindy Joint Venture. The Mindy Mindy channel iron ore deposit is located approximately 60km northwest of Newman in the East Pilbara region of Western Australia. Consolidated Minerals Limited and Fortescue each hold 50% of the shares in Pilbara Iron Ore Pty Ltd, which owns all but one of the Mindy Mindy tenements and manages the Mindy Mindy project.

Fortescue has also recently signed a memorandum of understanding with Cullen Resources Limited (“Cullen”) for Fortescue to earn an interest in the iron ore rights on a group of Cullen’s tenements in the West Pilbara Region. Fortescue can earn up to an 80% interest in the tenements by expending a minimum of A\$150,000, sole funding total expenditure of A\$1 million within three years and paying Cullen an additional amount based on the quantity of resources delineated, capped at A\$1,050,000.

Excluding the Project area, Fortescue holds over 32,000 square kilometers of tenement area, the majority of which are exploration licenses.

## OTHER FUNDING ARRANGEMENTS

### **Leucadia transactions**

On July 15, 2006 Fortescue and Chichester entered into a subscription agreement with Leucadia National Corporation (“Leucadia”) pursuant to which Leucadia, or one or more of its related entities, has agreed to pay US\$300 million to acquire 26,400,000 ordinary shares of Fortescue, representing slightly less than 10% of the issued share capital of Fortescue, and US\$100 million to acquire US\$100 million subordinated notes to be issued by Chichester and guaranteed by Fortescue (the “Leucadia Subordinated Notes”). Proceeds from the issuance of the shares to Leucadia will be used to repay the Bridge Loan, with the remainder, along with the proceeds from the Leucadia Subordinated Notes, to be used to fund construction costs.

Leucadia is a New York Stock Exchange listed holding company that owns a variety of businesses and investments, including in manufacturing, telecommunications, real estate activities and agricultural operations. As at March 31, 2006 Leucadia reported cash and marketable securities for new investments of approximately US\$2.1 billion. For the year ended December 31, 2005, Leucadia reported revenues of US\$1.04 billion and had total assets of US\$5.3 billion and common shareholders’ equity of US\$3.7 billion.

### ***Subscription for Fortescue shares and Leucadia Subordinated Notes***

The subscription for the shares and the Leucadia Subordinated Notes is conditional on Fortescue and the Project Group having funds available through the issue of the Senior Secured Notes and having been offered credit approved lease facilities pursuant to which they may enter into lease agreements for the lease of equipment, with a total value of US\$2 billion on terms acceptable to Leucadia. If this condition is not satisfied or waived by Leucadia by December 31, 2006, then the subscription agreement will terminate.

Completion of the subscription for the shares and the issue of the Leucadia Subordinated Notes is to occur at the same time as financial close for the Senior Secured Note. For so long as Leucadia is the holder of Leucadia Subordinated Notes issued by Chichester totalling US\$50 million or more, or 13,200,000 ordinary shares of Fortescue (adjusted to take account of changes in Fortescue’s share structure), Leucadia is entitled to nominate one person as a director of Fortescue and another person or persons to act as alternate director for that person.

Fortescue has agreed with Leucadia that if Fortescue proposes to issue shares or securities convertible into shares in the future (other than to employees or on conversion of existing options) Fortescue must allow Leucadia to participate in the proposed issue in proportion to its shareholding in Fortescue.

### ***Leucadia Subordinated Notes***

At completion of the subscription for shares, Chichester will enter into, and Fortescue will guarantee, a loan note deed poll pursuant to which Chichester will issue, and Fortescue will guarantee, subordinated notes to Leucadia or its nominee for US\$100 million. The Leucadia Subordinated Notes are repayable in full 13 years after the date of their issuance. Interest is payable half yearly on the Leucadia Subordinated Notes calculated at the rate of 4% of the gross sale proceeds invoiced by Fortescue for tonnes of iron ore produced from the Mine Plan Tenements and sold during the relevant interest period less the royalty payable to the Government of Western Australia. Each Leucadia Subordinated Note is entitled to that proportion of the interest calculated in this way as the face value of that Leucadia Subordinated Note bears to the total value of all Leucadia Subordinated Notes on issue.

The Leucadia Subordinated Notes are subordinated to the Senior Secured Notes. Interest is only required to be paid after the payment restrictions under the Senior Secured Notes have been satisfied. If due to these restrictions, Chichester is not able to pay interest on the Leucadia Subordinated Notes, then the right to interest accumulates until such time as Chichester is permitted under the terms of the Senior Secured Notes to pay such interest. Where interest is not able to be paid when it would otherwise have been payable, the amount of that

interest payment will itself accrue interest at 9.5% per annum. The terms of the Leucadia Subordinated Notes provide for Chichester providing a certificate on each interest payment date setting out the basis of the interest calculations.

The events of default under the Leucadia Subordinated Notes include (i) Chichester fails to pay within 10 days after the due time on the due date any amount payable under any Leucadia Subordinated Notes in the manner specified in the conditions of the Leucadia Subordinated Notes; (ii) Chichester defaults in fully performing and observing any of its other obligations in respect of any Leucadia Subordinated Notes other than a provision requiring the payment of money as contemplated by paragraph (i), and if that default is capable of remedy, it has not been remedied within 45 days of its occurrence; (iii) if there is an acceleration in payment of the principal of the Senior Secured Notes or any refinancing of the Senior Secured Notes as a result of the occurrence of an event of default under the Senior Secured Notes or such refinancing; (iv) unless the Senior Secured Notes have been refinanced, there occurs, at any time after all of the Senior Secured Notes have matured or been redeemed, an event which, if the Senior Secured Notes had not matured or been redeemed, would have been an event of default under the Senior Secured Notes; (v) if the Senior Secured Notes have been refinanced, there occurs at any time after all of the notes issued to refinance have matured or been redeemed, an event which, if those notes had not matured or redeemed, would have been an event of default under the refinanced notes; or (vi) an event of insolvency occurs in relation to Chichester or Fortescue. The term refinancing means refinanced for no greater principal amount than that issued under the Senior Secured Notes, at an interest rate no greater than payable under the Senior Secured Notes and with a maturity of no longer than 10 years after the date of financial close.

Holders of the Leucadia Subordinated Notes are not entitled to accelerate repayment after an event of default until the earlier of (i) the Senior Secured Notes have been paid in full, (ii) 360 days following the date on which any interest payments on the Leucadia Subordinated Notes became due and payable but were not paid; (iii) of acceleration of the Senior Secured Notes, or (iv) one business day following maturity of the Leucadia Subordinated Notes if all amounts of principal and interest have not been paid in full; provided, however, holders of Leucadia Subordinated Notes may accelerate payment of the guarantee given by Fortescue under the Note Deed Poll if Fortescue no longer guarantees the Senior Secured Notes.

The Leucadia Subordinated Notes are freely transferable subject to certain restrictions to prevent breaches of securities legislation. Chichester may deduct any withholdings tax payable and is not required to gross up the payments of interest for such withholdings tax.

Chichester agrees that if the Senior Secured Notes are listed on any stock exchange then Chichester will to the extent permitted by law use its best endeavours to obtain a listing of the Leucadia Subordinated Notes on such stock exchange provided the Leucadia Subordinated Notes satisfy the listing requirements of the relevant stock exchange for listing. Chichester also undertakes if requested by holders of Leucadia Subordinated Notes representing 50% or more of the value of Leucadia Subordinated Notes on issue, to co-operate in connection with the listing including preparing an offering memorandum, making management available for investor presentations and entering an underwriting or purchase agreement.

Fortescue and Chichester undertake to ensure that if Chichester or any person who directly or indirectly owns the shares in Chichester, sell all or substantially all of the assets of Chichester or shares held directly or indirectly in Chichester then they will ensure that the purchaser enters into a guarantee and indemnity on the same terms as Fortescue in respect of the Leucadia Subordinated Notes. The giving of such a guarantee and indemnity does not release Fortescue or Chichester from its obligations in respect of the Leucadia Subordinated Notes. Any person who acquires control of Fortescue or directly or indirectly of Chichester will be deemed to have automatically and without further action given a guarantee and indemnity in favor of the holders of Leucadia Subordinated Notes on the same terms as the guarantee and indemnity given by Fortescue.

The obligation to require a purchaser of all or any of the assets of Chichester or the direct or indirect shareholding in Chichester to provide a guarantee and indemnity does not apply to a disposal arising from the enforcement of the collateral provided with respect to the Senior Secured Notes.



## **Shareholder Loans**

### ***Subordinated Project Group loans***

The funds raised by Fortescue through Leucadia's subscription for shares, after costs, will be applied towards repaying US\$150 million owing under the Bridge Loan entered into by Fortescue in March 2006.

The balance of the funds received by Fortescue from Leucadia's subscription for shares will be lent by Fortescue to FMG Finance under a subordinated loan agreement. FMG Finance will apply the funds towards Project costs.

In addition to the subordinated loan, FMG Finance and Fortescue will enter into a Subordination Agreement with the Collateral Trustee which will provide that unless and until the Senior Secured Notes have been fully paid:

- Fortescue is not entitled to take any action to enforce recovery of any amount in relation to the subordinated loan;
- FMG Finance is not entitled to make any payments of principal; and
- any payment of interest by FMG Finance will be subject to and can only be made in accordance with the covenants, including in relation to restricted payments under the terms of the Senior Secured Notes.

FMG Finance will on lend funds received under the subordinated loan with Fortescue and under the Senior Secured Notes to Chichester and TPI to meet Project costs. The loans between FMG Finance and each of Chichester and TPI will also be subordinated on similar terms to the Fortescue subordinated loan. However, Chichester and TPI will be permitted to make payments of principal and interest to FMG Finance to the extent necessary for FMG Finance to meet its obligations under the Senior Secured Notes.

### ***Subordinated Loan for Exploration and Evaluation Expenditure***

On or before the closing of the Offering, Fortescue will enter into a subordinated loan of A\$183 million for the Project Group (A\$102.0 million to Chichester and A\$80.2 million to TPI). This amount represents exploration and evaluation expenditure made and capitalized by Fortescue that relates to the Project.

## **Operating Lease Facility**

In June 2006, an original equipment manufacturer notified Fortescue that its credit committee had approved an asset finance facility for up to US\$90 million utilizing an operating lease facility for mining equipment for the Project. The equipment may include overburden removal equipment, surface mining equipment and ancillary mining and support equipment. The lessee would be Chichester. The facility would be open for 18 months from the completion of definitive documents, which completion is subject to certain conditions. Each individual drawdown would mature in 60 months, with quarterly installments commencing three months after the initial drawdown. A customary margin over LIBOR would be charged on drawn amounts under the facility and there would be a commitment fee on the undrawn amount of the facility. Any equipment the subject of such operating lease facility will not be a beneficiary of the security granted to the Collateral Trustee for the Senior Secured Notes.

## **Performance Bonds**

The Project Group and Fortescue, as mining resources companies, are from time to time required to provide performance bonds or bank guarantees in the ordinary course of business in connection with or to secure statutory, regulatory or similar obligations, including obligations under mining or environmental regulations. In addition they may be required to provide performance bonds or bank guarantees to local councils or third party contractors in relation to works being carried out in relation to the Project.

The bonds are generally provided as collateral for the performance of statutory obligations or contractual obligations. For example, under the terms of the Mining Act and the conditions attaching to Fortescue's or Chichester's exploration licenses and mining leases, Fortescue or Chichester may be required to provide performance bonds as collateral for the performance of their obligations to rehabilitate the environment. The specific bonding requirements will vary and be altered depending on the activities being undertaken on the tenements from time to time.

In relation to statutory authorities, a performance bond may be required as collateral against certain equipment to be provided by the statutory authority. In relation to contractors performance bonds may be required under contracts being entered into for various aspects of the construction of the Project or in relation to purchase orders for equipment being acquired for the Project.

Fortescue has established a facility with a financial institution for the issue by the financial institution of performance bonds or bank guarantees at Fortescue's request. Fortescue has agreed to indemnify the financial institution for any amounts payable by it in relation to any calls made on performance bonds or bank guarantees issued on behalf of Fortescue. In addition Fortescue has provided cash collateral, in the form of deposit accounts with the financial institution for amounts equal to the face value of the performance bonds and bank guarantees issued on Fortescue's behalf. The financial institution may set off amounts claimed under the performance bonds or bank guarantees from the deposit account and Fortescue's rights to make withdrawals from the deposit accounts are restricted.

The Project Group proposes to establish a facility with one or more financial institutions for the issue of such performance bonds or bank guarantees, pursuant to which it is likely that the Project Group will need to establish cash collateral accounts or provide other security acceptable to the financial institution issuing the performance bond or bank guarantee. Provision has been included within the terms of the Senior Secured Notes for the issue of such performance bonds and bank guarantees and the establishment of cash collateral accounts or other security without breaching the restrictive covenants and on the basis that the credit balance of the cash collateral accounts will be excluded from the secured assets the subject of the security to be provided in relation to the Senior Secured Notes, which is expected to be in the order of A\$50 million.

It is important for the ongoing development and subsequent operation of the Project that the Project Group is able to arrange the issue of the performance bonds and bank guarantees on a timely basis as and when required and that the Project Group can provide the cash collateral or other security acceptable to the financial institutions issuing the performance bonds or bank guarantees.

## PRINCIPAL PROJECT AGREEMENTS

### **Project Management and Contracting Strategy**

The Project Group's strategy for managing its contracting requirements in relation to the Project has been to first seek out and hire appropriately skilled and experienced managers to assume key roles within the Project Group structure with responsibility for managing the Project Group's needs in relation to the different areas of project development. The overall project execution plan was developed taking into account the collective past experience of the team, the status of design, the current workload of suitable contractors and the need to have strict controls on costs and schedule.

Fortescue engaged in a process to seek out and appoint an engineering procurement and construction manager to provide the Project Group with access to additional skills, appropriate systems and procedures and the experience to assist in the management of the significant construction operations to be undertaken in the port, rail and mining areas. As a result, Fortescue has entered into an engineering, procurement and construction agreement (EPCM Contract) with WorleyParsons to undertake the front end engineering and design or "FEED" to fully establish the project scope, execution strategy, schedule and cost estimates.

WorleyParsons and Fortescue have created an integrated team comprised of personnel from each of WorleyParsons and Fortescue called "Team 45" to manage the construction of the three main components of the Project (port, rail and mining). Team 45 is responsible for preparing engineering specifications for tender documents, undertaking detailed design, issuing tenders and recommending contractors to the Project, supervising the chosen contractors and managing overall project execution across the mine, rail and port. Discussions have been held with the majority of key suppliers of critical supply items for the Project. The key work streams that will be contracted out are earthworks, marine works, minesite plant construction, port plant construction and rail road construction.

### ***Material Contracts***

Fortescue and the Project Group, together with Team 45, engaged in tender processes to initially obtain expressions of interest with indicative prices for the supply of those services or equipment referred to above. The Project Group has established a schedule including details of which services or equipment are required by when in order to achieve commissioning and testing and first shipment by early 2008. Where necessary this has included a determination of the delivery time and construction time for major items of equipment or infrastructure. The Project Group then progressed discussions with specific parties with a view to entering into contracts with those parties as and when needed in accordance with the Project timeline.

The Project Group has adopted a strategy of negotiating and entering into contracts in a manner that it believes will best manage the competing tensions of incurring the costs of procuring equipment and services on the one hand and on the other ensuring the Project's schedule is not delayed due to equipment and services not being delivered as and when required. The Project Group believes that it is not necessarily appropriate or practical to enter into all contracts prior to the date of this Offering Memorandum.

Set out below are two tables. The first sets out those contracts that have been executed by the relevant Project Group member. The second table identifies other major contracts that will be required in future and which have not been entered into at this stage. The contracts described in those two tables include the 19 largest construction related contracts by anticipated contract sum and account for in excess of 70% of the total amount of budgeted construction costs for the Project (based on indicative pricing provided by potential contract counterparties for the contracts yet to be formally entered into). In addition to those contracts described in the second table below there are numerous other contracts for supply of equipment or services that will be required

during construction of the Project. However, these other contracts are considered by the Project Group to be less significant and generally represent equipment or services that are readily available in the market place.

### Executed Material Contracts

<u>Contract</u>	<u>Description</u>
<i>General</i>	
1. EPCM Contract between Fortescue, TPI and WorleyParsons Services Pty Ltd	Contract for the appointment of WorleyParsons to manage (as part of Team 45) the engineering, procurement and construction for the three main components of the Project.
<i>Port</i>	
2. Contract for Dredging between TPI and Jan De Nul N.V.	Contract for dredging services to dredge the port at Port Hedland.
3. Contract for Train Unloader between TPI and Metso Minerals (Australia) Limited	Contract for the design and supply the train unloader to be used at the Port.
<i>Rail</i>	
4. Rail Earthworks Alliance Agreement between TPI and BGC Contracting Pty Ltd (BGC)	Contract for BGC to carry out earthworks in relation to the railroad, structured on an alliance basis.
5. Contract for Ore Wagons between TPI and China South Locomotive & Rollingstock Industry (Group) Corporation	Contract for the design, supply and assembly of ore wagons.
<i>Mining</i>	
6. Pilbara Mine Alliance Agreement between FMG Chichester Pty Ltd, Roche Mining Pty Ltd and Pilbara Mining Alliance Pty Ltd.	Agreement for Chichester and Roche Mining Pty Ltd to carry out the operation and maintenance of the mine structured on an alliance basis.
7. Contracts for Crushers between Fortescue and FFE Minerals (USA) Inc. and FFE Minerals (Australia) Pty Ltd.	Contract for the manufacture, delivery, assembly and commissioning of crushers to be used at the minesite. The Crushers Contract has been split into two. The first contract is with FFE Minerals (USA) Inc. and deals with the manufacture and delivery of the crushers to Australia. The second contract, with FFE Minerals (Australia) Pty Ltd, relates to the assembly and installation of the crushers.

### Significant Future Contracts

*(These contracts have not yet been entered into by the relevant Project Group member)*

<u>Contract</u>	<u>Description</u>
<i>Port</i>	
1. Marine Structures	Contract for the design and construction of the jetty and wharf structures at the port for the loading of ore onto ships.
2. Port SMP 2 contract	Contract for structural and mechanical works required to be carried out at the Port.
3. Port E&I	Contract for electrical works and installation at the Port.
4. Contract for Shiploaders, Stackers and Reclaimers between TPI and ThyssenKrupp Engineering (Australia) Pty Ltd	Contract for the design and construction of the shiploaders, stackers and reclaimers to be used at the Port.
<i>Rail</i>	
5. Tracklaying	Contract for the laying of the railway track.
6. Bridges	Contract for the design and construction of the bridges needed to cross other parties' rail lines.
7. Locomotives	Contract for the manufacture, delivery, assembly and commissioning of Dash 9-44CW locomotives
8. Contract for Rail Steel	Contract for the supply of steel rail for the railway line.
9. Contract for Sleepers	Contract for the supply of sleepers and cross ties for the railway line.
<i>Mining</i>	
10. Liners	Contract for the supply of liners for the crusher.
11. Mine E&I	Contract for electrical works and installation at the minesite.
12. Mine SMP Package 1	Contract for structural and mechanical works required to be carried out at the minesite.
13. Mine Stockpile Vault & Tunnel	Contract for excavation and supply and installation of the vault and tunnel at the minesite.
14. Mine Struct/Fab Package 1	Contract for the design, supply and erection of the office buildings and plant workshop at the minesite.

Summaries of the contracts that have been executed as listed in the first table above are set out below.

### General

#### *Engineering, Procurement and Construction Management Agreement (EPCM Contract)*

The EPCM Contract provides for the establishment of an integrated project management team (Team 45) comprised of personnel from Fortescue, TPI and WorleyParsons. Fortescue and WorleyParsons entered into the EPCM Contract on January 12, 2006 for Stage 1 services. Fortescue then novated its interests in this agreement to TPI via a Deed dated May 19, 2006. Notwithstanding this novation, a number of substantive obligations in the EPCM Contract as amended by the Deed apply to both TPI as incoming party, and Fortescue as the original contracting party, and therefore any references within this offering memorandum to TPI in the context of the EPCM Contract apply equally to Fortescue. This deed extended the services to be provided under the EPCM

Contract to include Stage 2 services as well as making other amendments to the EPCM Contract. Final completion is defined in the EPCM Contract as the time when all of the services and works are completed in accordance with the terms of the EPCM Contract. There is no fixed date for final completion, however, WorleyParsons is to receive a profit sharing element on ore shipped prior to March 31, 2008, designed to encourage, final completion to occur as early as possible.

WorleyParsons' obligations are to use best endeavors to reach all milestone dates and ensure that each stage is completed in accordance with the Project schedule, to use best endeavors to ensure final completion is achieved, to manage (as part of Team 45) the delivery of services and work by TPI's contractors and to provide its services in accordance with good engineering and construction management practice and engage contractors with suitable skills and experience.

Under the terms of the EPCM Contract, the parties have agreed to a baseline budget which is based upon the control estimates previously prepared for the Project.

WorleyParsons' remuneration is based on a combination of actual costs (covers pass through costs such as employee and contractor's labor costs, project overhead costs and expenditure costs), fixed costs at an agreed limit, a sliding incentive fee (from A\$25 million if project costs are not more than A\$2,000 million to A\$0 if project costs are greater than A\$2,246 million) and a profit sharing element (A\$1.50 for every tonne of iron ore loaded onto a ship before midnight on March 31, 2008).

WorleyParsons' responsibility to Fortescue and TPI on the Project is limited to the extent provided for under the EPCM Contract with Fortescue and TPI in respect of their work. Further, Fortescue and TPI have indemnified WorleyParsons in respect of any claims from third parties arising out of the Project.

WorleyParsons is able to suspend its services in several scenarios. It may suspend its services where TPI's cash balance drops below A\$10 million or where TPI fails to make any payment to WorleyParsons within 10 business days of the due date. Where TPI and WorleyParsons dispute an amount to be paid to TPI and the disputed amount is greater than 20% of the total amount, WorleyParsons can suspend services. TPI can at any time order WorleyParsons to suspend services. Under the circumstances where the services are suspended TPI must reimburse WorleyParsons for all actual costs incurred.

TPI can terminate the EPCM Contract when an insolvency event occurs in relation to WorleyParsons or where WorleyParsons fails to reperform defective services, fails to rectify any breach within the grace period, assigns its interest contrary to the EPCM Contract or fails to comply with an insurance obligation. TPI also has the right to terminate at any time without cause, but shall be liable for certain break costs to WorleyParsons.

WorleyParsons may terminate the EPCM Contract if TPI fails to make any payment within ten Business Days (which will allow WorleyParsons to suspend its services) and then fails to pay within twenty-seven Business Days from the date of the suspension.

In addition WorleyParsons may terminate the EPCM Contract if TPI suffers an insolvency event, assigns its interest contrary to the EPCM Contract, fails to comply with its insurance requirements or commits a material breach of the EPCM Contract.

TPI and WorleyParsons will enter into a Tripartite Arrangement with the Collateral Trustee. See the sections entitled "—Recognition of rights of Senior Secured Note holders" and "Description of the Collateral" for more information regarding the Tripartite Arrangement.

WorleyParsons' liability to TPI in respect of a claim for defective services is limited to performing those services again, to a maximum aggregate value of A\$5 million in respect of the Stage 1 Services, and A\$20

million in respect of the Stage 2 Services. Stage 1 (feed stage) involves assisting TPI to obtain regulatory/statutory approvals, preliminary engineering and preparing bid packages for long lead time items and construction contracts. Stage 2 (execution state) involves project management, engineering management, contract development and administration, construction management, pre-commissioning, commissioning and start-up assistance and preparation of progress reports. Consequential loss has been excluded from the EPCM Contract.

TPI has agreed and covenanted not to sue WorleyParsons other than in limited circumstances specified exclusively in the EPCM Contract, namely, for specific enforcement orders, to recover sums of money or in relation to certain indemnities.

TPI indemnifies WorleyParsons (plus its contractors, directors and employees) against all claims arising out of or in connection with personal injury, death and loss or damage suffered by any third party (including damage to or loss of property) arising out of the acts or omissions of TPI (or TPI's contractors, directors and employees). The indemnity is reduced proportionally to the extent that any act or omission of WorleyParsons or its contractors, directors and employees contributed to the injury, death, loss or damage. There is no cap on TPI's liability.

WorleyParsons provides the same indemnity to TPI, subject to its cap on liability discussed above. TPI also releases WorleyParsons from all liability for misleading and deceptive conduct arising out of any act, omission, statement, work product, design arising out of WorleyParsons providing its services in the ordinary course of its business and where such conduct does not amount to willful misconduct.

WorleyParsons has agreed to TPI granting security over its interest under the EPCM Contract to a third party for the purposes of financing the Project. The EPCM Contract contains a dispute resolution clause. When a dispute arises each party must first refer it to a representative from each company. Where the dispute is not resolved within seven business days it is elevated to an executive panel being the Chief Executive Officer for TPI and Managing Director for WorleyParsons. If the dispute cannot then be resolved within a further fourteen business days then either party can (subject to the restrictions in the EPCM Contract on TPI and Fortescue's ability to sue) commence legal proceedings in the courts of Western Australia. The EPCM Contract is governed by the laws of Western Australia.

As required under the EPCM Contract, Fortescue and the Project Group are solely and entirely responsible for the accuracy of the information and content set out in this offering memorandum.

#### **Table—summary of similar contracts (Port/Mine)**

Several contracts entered into by TPI have similar terms and conditions and these have been summarized for ease of reference in a table. Where any further conditions apply or a term is to be explained further, these are set out under separate headings later in this section.

The table deals with the following contracts:

- (1) Dredging Agreement between TPI and Jan De Nul N.V. ("JDN"), dated May 2, 2006;
- (2) Train Unloader Agreement between TPI and Metso Minerals (Australia) Limited ("Mesto"), dated July 14, 2006; and
- (3) Crushers Agreements between Fortescue and FFE Minerals USA Inc ("FFE (USA)") dated July 13, 2006 and Crushers Agreement between Fortescue and FFE Minerals (Australia) Pty Ltd ("FFE (Aust)"), dated July 13, 2006.

	<u>Dredging Agreement</u>	<u>Train Unloader Agreement</u>	<u>Crushers Agreement</u>
<b>Is it a fixed price contract?<sup>1</sup></b>	Yes	Yes	Yes
<b>Can the fixed price be altered by Variation or Suspension??</b>	Yes	Yes	Yes
<b>Right to suspension<sup>3</sup>?</b>	Yes for each party.	Yes for each party.	Yes for each party.
<b>Is there a Specified Completion Date?</b>	Yes, May 7, 2007.	Yes, August 16, 2007.	Yes, October 31, 2007. There are also specific dates for the delivery of each crusher which is discussed further below.
<b>Can the Completion Date be extended due to an extension of time being granted?</b>	Yes. Extension of time is granted for: industrial action; variations; change in law, breach of an express term of the contract by TPI; a force majeure event; a delay in access to the site or any event entitling JDN to any standby rate under a remuneration schedule.	Yes. Extension of time is granted for: any act, default or omission by TPI or its consultant, agents, or contractors; industrial action; variations; a change in law; a breach of an express term of the contract by TPI; a suspension by TPI or a force majeure event.	Yes. Extension of time is granted for: industrial action; variations; change in law; a breach of an express term by TPI and a suspension by TPI.
<b>Liquidated Damages payable by counterparty capped at 5% of contract sum?</b>	Yes. Payable where certain milestones are not met (see further discussion below).	Yes. Liquidated damages are payable where Metso fails to deliver equipment by the date for delivery or the equipment does not comply with specification and is rejected by TPI.	Yes. Liquidated damages are payable if the crushers are not delivered by certain milestone dates or if practical completion does not occur by October 31, 2007.
<b>Are delay damages payable by TPI?</b>	Yes (see further discussion below).	Yes (see further discussion below).	Yes (see further discussion below).
<b>Can either party suspend/terminate the contract<sup>4</sup>?</b>	Yes.	Yes.	Yes.
<b>Provision of bank guarantee for 5% of contract price by counterparty as security for performance?</b>	Yes.	Yes.	Yes. However, the sum is for 10%. Note that FFE (USA) guarantees all of the obligations of FFE (Aust) under its crushers agreement with Fortescue.
<b>Defects Liability Period?</b>	No.	Yes, 12 months from the date TPI confirms that the equipment is acceptable.	Yes, 12 months from date of practical completion or 18 months from delivery to the site, whichever occurs first.



	<u>Dredging Agreement</u>	<u>Train Unloader Agreement</u>	<u>Crushers Agreement</u>
<b>Indemnities by each party to the other and without a cap?</b>	Yes. See discussion below.	Yes. See discussion below.	Yes. See discussion below.
<b>Consent required from contractor in order for TPI to assign its interests under the contract?</b>	Yes. A letter has been sent by TPI to JDN requesting JDN to consent to the granting of security over TPI's interests under this agreement and to a financier assigning that interest in accordance with the security.	No.	No.
<b>Dispute Resolution Clause<sup>5</sup> ?</b>	Yes.	Yes.	Yes.
<b>Contract governed by the laws of Western Australia?</b>	Yes.	Yes.	Yes.

Notes:

- 1 Payments are made on a progress payment basis with a final payment claim.
- 2 Where a suspension occurs that is due to the fault of TPI and the relevant contractor incurs additional costs or effects a cost saving, TPI will adjust the contract price to reflect the additional cost or savings. The contractor has an obligation to mitigate against further cost.
- 3 TPI can suspend due to an act, default or omission of TPI or the contractor; for the protection or safety of any person or property in accordance with a court order. A contractor can only suspend work with the prior written consent of TPI.
- 4 Either party can terminate for an act of insolvency. A contractor can terminate for a TPI substantial breach. For a contractor substantial breach (in the case of the Crushers Agreements) TPI can either terminate the contract or give the remaining work to be completed to a third party and suspend all payments to the contractor until the remaining works have been completed. For the other contracts in the table, where a contractor substantial breach occurs, TPI can terminate the contract and take possession of the equipment. A substantial breach for a contractor includes but is not limited to failing to provide security, failing to provide evidence of insurance, failing to comply with a direction of a counterparty's representative in relation to defective work, wrongful suspension of work, a substantial departure from a construction program without reasonable cause or without TPI's approval, failing to proceed with due expedition and without delay (where there is no construction program) and failing to comply with any occupational health and safety obligations. A substantial breach for TPI includes but is not limited to failing to make a payment when due and payable, failing to produce evidence of insurance or failing to give a counterparty access to the site.
- 5 If a dispute arises then either party shall give the other party a written notice identifying the dispute. Senior representatives of the parties at the project level must then meet and use their reasonable endeavors acting in good faith to resolve the dispute. If the dispute is not resolved then within a certain period of time (twenty to twenty eight days depending on the contract) from the delivery of the dispute notice, executives of each party are to meet and use their reasonable endeavors acting in good faith to resolve the dispute. If the dispute then cannot be resolved either party may sue.

## **Port**

### ***Dredging Agreement***

TPI entered into an agreement with JDN to dredge 4.5 million cubic meters and reclaim approximately 76 hectares at Anderson Point, Port Hedland. The agreement incorporates the general conditions contained in Australian Standard AS4000-1997, a letter from TPI to JDN dated March 15, 2006 (the "Dredging Letter Agreement") and a scope of work and specification document.

Liquidated damages will become payable by JDN at an agreed daily rate if completion of certain milestones are not achieved. The milestones for completion are:

- (a) completion of the north west 250 meters of the berth pockets and adjacent slope by August 17, 2006;
- (b) completion of the central 250 meters of the berth pockets and adjacent slopes by October 12, 2006; and
- (c) completion of the remainder of the berth pockets and adjacent slope by December 21, 2006.

Under the agreement, TPI is liable to pay delay damages where an extension of time is granted for compensable causes which are: a variation, a change in law, suspension by TPI or a breach of the agreement by TPI, a suspension arising out of TPI's failure to show cause after a request by JDN to do so under the agreement, any delay in access to the site beyond the agreed start date and any event entitling JDN to any standby rate under any remuneration schedule. The delay damages are not payable in addition to costs incurred during a variation. Where a variation occurs causing the contract price to increase (and in turn increasing the time to complete the work) JDN will not be able to claim again for delay damages.

JDN will indemnify TPI from any loss or damage to TPI's property and claims in respect of personal injury including death arising from the works (reduced proportionately to the extent that TPI or its representatives contributed to such loss or damage). TPI indemnifies JDN (or its representatives) for damage which is the unavoidable result of the construction of the works in accordance with the Dredging Agreement.

Pursuant to a Dredging Letter Agreement TPI undertakes to pay JDN a termination payment equal to the costs of full mobilization and demobilization minus certain advanced payment plus any progress claims made if the Dredging Agreement is terminated after May 14, 2006 for any reason including default.

### ***Train Unloader Agreement***

TPI has entered into an agreement with Metso for the design, manufacture, supply and supervision of installation and commissioning of a train unloader at Anderson Point, Port Hedland. The contract incorporates the general conditions contained in Australian Standard AS4911-2003.

TPI is liable to pay delay damages where an extension of time is granted for compensable causes, which are: where an extension of time is granted for a variation, a change in the law, suspension by TPI, a breach of an express term of the agreement by TPI and where the extension of time is due to any act, default or omission of TPI or its consultants, agents or other contractors (not being employed by Metso).

Metso is required to indemnify TPI from any action, claim, demand, cost or expense arising from loss or damage to TPI's property or any personal injury, death or loss or damage to any other property arising out of Metso's performance. The indemnity is reduced proportionately to the extent that TPI or its representatives contribution to such loss or damage.

## **Rail**

### ***Rail Earthworks Alliance Contract Agreement***

TPI entered into an agreement with BGC Contracting Pty Ltd (“BGC”) on July 14, 2006 contracting for the construction of the rail road and installation of rail earthworks. The agreement is in the form of an alliance contract similar in form to the Mining Alliance Agreement (described below).

The main obligations of BGC are to bring the Works (defined as the supply and installation of rail earthworks) to completion and then rectify any defects. The Rail Earthworks Alliance Agreement will commence upon TPI obtaining financial close for the Project and written confirmation from Citigroup that funding has been made available. If funding has not occurred as of August 31, 2006, the parties shall meet to discuss in good faith the schedule payment regime. The Agreement does not set out a mechanism to deal with the situation where an agreement cannot be met. TPI can request BGC to commence work prior to funding being made available, however, TPI is to provide BGC with payment guarantees as security for the work. Due to the alliance nature of this contract, both parties agree to perform the work under this contract to ensure the Works are completed by certain milestone dates set out in the contract. The Alliance Manager will notify the Alliance Leadership Team (“ALT”) when the Alliance Management Team (“AMT”) is satisfied that completion of the Works has occurred. If the ALT determines that completion has occurred then it will issue a certificate of completion stating the date of completion.

The ALT will be created to lead the Alliance. It is made up of two representatives from each of TPI and BGC. Meetings of the ALT are held monthly and a quorum requires all representatives to attend. All determinations must be made on a unanimous basis. In addition to the ALT, an AMT will be created as the project management team in order to implement this Agreement. The AMT is to follow decisions made by the ALT. The AMT will be lead by an Alliance Manager who will be selected by the ALT at their first meeting.

Both BGC and TPI will provide management personnel to the construction team. BGC will provide all plant and labor. BGC is to be paid by TPI for actual direct costs incurred, its fee and any gainshare owed to it. A total of Target Direct Costs (“TDC”) was submitted to TPI by BGC as part of its tender of works. If actual direct costs are equal to TDC, BGC will receive 14% of the actual direct costs as corporate overhead and profit which will constitute its fee.

BGC is eligible for a gainshare payment (cost savings payment) where actual direct costs are less than TDC. If the actual direct costs exceed the TDC then BGC pays 50% of these additional costs. BGC’s exposure to pay for cost overruns is limited to an amount equal to 10% of actual direct costs such that BGC will always be entitled to a minimum of 4% of actual direct costs as its fee regardless of how much the actual direct costs exceed TDC. BGC’s allowance for overheads is not at risk if the TDC is not achieved.

Certain potential overrun or risk allowances have been identified and excluded from the TDC. These are associated with drill and blast, mobilization costs, adverse weather, mobilization, de-mobilization and certain staff costs. These risks have been capped at approximately A\$11.5 million. In the event that these potential risks occur the sum of direct costs will be adjusted to a maximum total of this contingency sum. If costs arising from these risks exceed the contingency sum each party will share equally the excess amount.

The Alliance Manager or ALT can suspend work if necessary to prevent personal injury, death or loss of or damage to any property and adverse impact upon safety or health of any person or a breach of a statutory requirement.

BGC can suspend the works for any non-payment by TPI which is not remedied within 30 days. TPI can suspend works at any time. Where a suspension occurs in either of these scenarios TPI will pay BGC its direct costs incurred to date and any fee owed to it.

Both TPI and BGC have a right to terminate the agreement based on an insolvency event or willful default. Willful default includes an intentional or reckless act or omission, repudiation of the agreement, failure to honor an indemnity, failure to pay money within 30 days, a fraudulent act or omission, an intentional failure or refusal to effect or maintain an insurance policy or an intentional or reckless breach of a confidentiality obligation. TPI has the ability to terminate at any time for any reason.

If TPI terminates the agreement, other than due to the insolvency of BGC or a willful default in relation to BGC, it is to pay a termination payment to BGC being the difference between the direct costs and its fee payable prior to termination and any amount previously paid by TPI to BGC. If TPC terminates for an insolvency event or event of default, BGC will indemnify TPI for all costs and expenses and loss arising out of the insolvency event or willful default. If BGC terminates for an insolvency event or event of default of TPI, TPI will indemnify BGC for all costs, expenses and loss arising out of the insolvency event or event of default.

BGC has consented to TPI granting security over its interests in the Agreement to any financier, security trustee or any other party providing finance to Fortescue. Each party agrees to try and resolve each dispute between themselves and whilst there is no specific dispute resolution clause as there is in the other contracts, each party has agreed to commence proceedings in the court of Western Australia. The governing law of this contract is the law of Western Australia.

### ***Ore Wagons***

TPI entered into a contract on February 27, 2006 with China South Locomotive & Rollingstock Industry (Group) Corporation (“CSR”) and CSR Zhuzhou Rolling Stock Works (“CSR ZRSW”) for the manufacture, commissioning and supply of 2 prototype wagons and 820 wagons (the “Ore Wagons Contract”). The Ore Wagons Contract also contains provisions relating to post supply services to assist in the maintenance and use of the wagons, including the supply of spare parts and ancillary rolling stock.

If the prototype wagons do not meet the required specifications TPI is under no obligation to place an order for the wagons and CSR and CSR ZRSW (collectively, the “Manufacturer”) are responsible for cost of building the prototypes.

The required specifications for the prototypes and the wagons have been agreed by the parties and the wagons are required to comply with a number of standards including the standards set by the Association of American Railroads (the “specifications”).

The order for the wagons (the “Order”) can only be placed by TPI after the Manufacturer has built two prototypes wagons that meet the specifications. TPI is under no obligation to order the 820 wagons even if the prototypes are built to the specifications.

Once the Order is placed, the Order is required to be completed by November 2007. The wagons will be assembled and commissioned in Australia with TPI being required to provide at its cost all the necessary equipment and facilities for the Manufacturer to do this. The Manufacturer is responsible for the labor costs (including lodging costs) associated with the assembling and commissioning of the wagons in Australia. The Manufacturer is also liable for all costs associated with the transportation of the wagons to Port Hedland. TPI is responsible for the costs of transporting the wagons from Port Hedland to the Site (being the site in WA where TPI is responsible for developing certain infrastructure for the proposed mining operation). The Manufacturer bears all risks associated with the Order until the wagons have been delivered to the Site.

The payment for the wagons is staggered from placing the Order to the actual delivery and acceptance of the wagons. However, TPI is required to provide an irrevocable letter of credit at sight, within thirty days of the estimated shipment date for each shipment with the Manufacturer as the beneficiary in the amount of 90% of the price of the wagons contained in each shipment for a period of five months from the date of issue. Each shipment is to consist of approximately 100 wagons with the first shipment due to commence in July 2007.

The wagons' warranty period varies from one to eight years depending on the respective component of the wagons. The Manufacturer is required to source an Australian bank guarantee for 12 months after the acceptance of the wagons in favor of TPI for 20% of the wagon price for each shipment.

The contract price may vary if the price of raw materials changes due to changes in exchange rates, freight costs or suppliers' costs. TPI and the Manufacturer will share the change in these costs on a 50/50 basis. If TPI changes the specifications of the wagons, TPI is required to pay any additional costs associated with such specification changes.

There are no limits on liability in the Ore Wagons Contract and TPI can claim for all losses (direct or indirect) associated with any delays in the delivery of the wagons subject to usual limitations under applicable laws. No Manufacturer guarantees have been given in relation to potential damages.

TPI can terminate the contract if the prototype wagons do not meet the specifications or at its discretion after the prototype wagons have been developed but prior to placing the Order. The Manufacturer can terminate if TPI fails to make the required payments for more than three months.

The Ore Wagons Contract contains provisions for termination if either party is in liquidation or the subject of such proceedings or has committed a material breach of the contract or if there is a force majeure event which is not expected to be resolved within six months of the event happening.

The Ore Wagons Contract contains a dispute resolution clause stating that disputes not settled by negotiation are to be settled by arbitration in Singapore and the contract is governed by the laws of Singapore.

TPI's interests in the Ore Wagons Contract can only be assigned, sold, transferred or pledged with the Manufacturer's written consent. A letter has been sent by TPI to the Manufacturer requesting that the Manufacturer consent to the granting of security over its interests in the agreement and to a financier assigning that interest in accordance with the security.

## **Mining**

### ***Crushers Agreements***

Fortescue has entered into two crushers agreements with FFE (USA) and FFE (Aust). The crushers agreement was split into two so that FFE (USA) is to be responsible for supplying equipment from the USA to Australia (the "Supply Contract") and then FFE (Aust) is responsible for all work there after, including the delivery of the equipment to the site, installation, commissioning and defect liability obligations (the "Installation Contract"). The Installation Contract was negotiated first incorporating the general terms and conditions contained in the Australian Standard AS4910-22002. The intention was that after the Installation Contract was concluded the general terms and conditions would be amended to remove all clauses related to the installation portion of the contract for the Supply Contract. Due to time constraints in finalizing the documentation this was not able to be done other than for a few clauses and thus the terms and conditions for the Supply Contract and Installation Contract are almost identical.

To separate between the Supply Contract and Installation Contract, separate scopes of work have been provided for in each contract to demarcate between the obligations of FFE (USA) and FFE (Aust).

FFE (USA) has an obligation to deliver crushers to Australia by certain dates. The ten crushers are to be delivered at specific dates between January 2007 and October 2007. FFE (Aust) has an obligation to deliver the ten crushers to the site on specific dates from February 2007 until November 2007.

TPI is liable to pay delay damages where an extension of time is granted for compensable causes, which are variations, a change in the laws occurs, works are suspended by TPI or there is a breach of the agreement by TPI.

FFE (USA) and FFE (AUST), to the extent caused by the negligent acts or omissions by FFE, will indemnify TPI against loss or damage to TPI's property and claims in respect of personal injury or death or loss of, or damage, to any other property arising out of or as a consequence of FFE's performance of this agreement (reduced proportionately to the extent that TPI or its representatives contribute to such negligent act or omission).

#### ***Pilbara Mining Alliance Agreement***

Chichester entered into the Pilbara Mining Alliance Agreement with Roche Mining Pty Ltd ("Roche") on June 2, 2006, to form an alliance to share a number of risks associated with the operation and maintenance (and some construction) of the development and commissioning of Chichester's mine facilities in the Pilbara. The initial tenements to be exploited will be the tenements at Cloud Break and Christmas Break. To facilitate this, a company has been formed called Pilbara Mining Alliance Pty Ltd ("PMA") which will be responsible for procuring new employees, resources and equipment.

The term of the contract is five years. The CEO of Fortescue may at the end of the first two year period elect on each subsequent anniversary of the date of the agreement to extend the term of the agreement for a period of three years. The Alliance Leadership Team will after the initial two year period and then annually, review the performance of the Alliance and recommend to the CEO of Fortescue whether the term of the agreement should be extended.

The main obligations of Chichester and Roche (the Alliance participants) are to ensure the mine and works are designed, constructed and commissioned to satisfy the minimum performance requirements nominated by Chichester and be involved in the mine operation to make sure annual operation is optimized.

Roche is paid by Chichester on the basis of the reimbursement of direct costs, a Stage 1 Fee, a Stage 2 Fee as well as any amount earned via the "gainshare" concept. Stage 1 involves mine planning, equipment selection, procurement and commissioning, mine infrastructure planning, operator input to design, pre-production of initial bulk earthworks, pre-strip, pre-production ore mining, construction of haul roads, services reticulation, dewatering, installation and commissioning of mine site conveyancing and development of all mine site management systems. Stage 2 involves mine production and mine planning to optimize annual operations and annual operating targets of the mine. Chichester will be obliged to pay certain gainshare payments to Roche where Roche has over-performed in reaching certain targets. The Stage 1 Fee is made up of a margin of US\$1.4 million for the period of June 1, 2006 until December 31, 2006 plus a fee calculated as a percentage of the sum of all direct costs. The Stage 2 Fee has not been determined yet as it is a fee equal to 3.75% of target out turn costs (TOCs) (costs necessary to maintain the minimum conditions of satisfaction under the Agreement). The TOCs are to be determined by a report put together by the Alliance and this report is not due to be completed until June 2007.

Chichester is able to claim from Roche any "painshare". These are payments from Roche to Chichester where certain targets have not been met. Further, PMA is able to claim for all costs incurred by it. Before any amount can be paid to any party, it needs to be approved first by the Alliance Manager.

The Alliance Leadership Team is created to lead the Alliance. It is made up of three members from each of Roche and Chichester. A quorum requires at least two members of each Alliance participant. All determinations made by the Alliance Leadership Team must be done on a unanimous basis. If unanimity is not reached within three months the issue is raised to the level of the CEO of each participant and then to the Chairman of Fortescue and Downer EDI (Roche's parent). If resolution still cannot be achieved this agreement will be terminated by Chichester as a termination of convenience.

Chichester can terminate the agreement for any reason or where a default, including a failure to pay within fourteen days or a failure to honor an indemnity or act of insolvency occurs to Roche. When Chichester terminates for any reason other than a default by Roche or insolvency event in respect of Roche, damages plus a

termination sum is to be paid to Roche. Where Chichester terminates for a default or act of insolvency Chichester is able to claim via an indemnity from Roche all of its costs, expenses, losses and damages that have occurred due to the default or act of insolvency. Roche's liability is capped at the lesser of A\$20 million and fees payable to Roche over the previous 12 month period.

Roche can only terminate where a default or act of insolvency occurs to Chichester. If either event occurs then Roche must first suspend its works. If the event continues for another 180 days then Roche can terminate. Roche is then able to claim, via an indemnity, from Chichester all of its costs, expenses, losses and damages that have occurred due to the default or act of insolvency. Chichester's liability is capped at A\$20 million.

Roche is also required to provide a parent company guarantee in favor of Chichester for its liabilities under this Agreement in a form acceptable to Chichester.

There is no specific dispute resolution mechanism in the Agreement, other than to commence proceedings in the Courts of Western Australia. The agreement is governed by the laws of Western Australia.

TPI and Chichester will enter into a Tripartite Agreement with the Collateral Trustee which is discussed at the end of this section.

#### **Recognition of rights of Senior Secured Note holders**

The Collateral over which security is to be granted includes each contract or agreement entered into by the Project Group. For the project agreements related to the construction of the Project, the Project Group will seek to include an acknowledgement in each such agreement (or by means of a separate acknowledgement) that:

- (a) such agreement may be assigned by way of security to the Collateral Trustee for and on behalf of the holders of Senior Secured Notes;
- (b) the enforcement of the Collateral by the Collateral Trustee will not of itself constitute an event of default under that agreement; and
- (c) following enforcement of the Collateral, the counterparty to the agreement will agree to the notional transfer of that agreement by the Collateral Trustee to a third party.

In addition, given the importance of the EPCM Contract and the Pilbara Mining Alliance Agreement, a direct agreement will be entered into between the Collateral Trustee, the select members of the Project Group which are party to those agreements and WorleyParsons or Roche respectively.

These agreements also provide for the Collateral Trustee (or an enforcing party on its behalf) to step in and cure defaults of the relevant Project Group counterparty to those agreements. Each of WorleyParsons and Roche undertake to suspend their rights to terminate the EPCM Contract and Pilbara Mining Alliance Agreement respectively for a limited period while the Collateral Trustee (or an enforcing party on its behalf) is granted this opportunity to cure for relevant default.

## DESCRIPTION OF CERTAIN PROJECT APPROVALS AND AUSTRALIAN LEGAL MATTERS

### Summary of Project approvals

In respect of the proposed mine, Chichester has been granted mining leases over approximately 95% of the estimated mineral resources at the Christmas Creek and Cloud Break deposits. It has also applied for further mining leases and intends to apply for miscellaneous licenses for mining related infrastructure such as an aerodrome and road. Chichester and Fortescue have entered into the Mining State Agreement with the State government of Western Australia (“State”) that sets out the process by which Chichester may be granted further approvals required to establish its mining operations.

TPI and Fortescue have entered into the Infrastructure State Agreement with the State, which facilitates the grant of certain approvals required for the construction and operation of the port and rail facilities. TPI has been granted:

- three investigative licenses to conduct certain investigations in respect of the proposed railway;
- an occupation license over an area of land outside the Port Hedland Port for the purposes of a temporary office, lay-down, topsoil storage and access; and
- a license to undertake preliminary works (including earthworks and dredging) at the Port.

TPI will also need to obtain the following key consents, approvals, leases and licenses in order to establish and operate its port and rail infrastructure, which have not yet been granted:

- the order from the Minister for Indigenous Affairs (published on July 18, 2006) varying the classification of “Woodstock/Abydos” to exclude the route of the railway must be laid before both Houses of Parliament and not be disallowed by a resolution of either House within 14 sitting days of it being laid before the House. The order is required to be laid before the Houses of Parliament within six sitting days of being published and the Lower and Upper Houses of Parliament do not sit again until August 15, 2006 and August 22, 2006, respectively;
- consents to the grant of the Special Railway Licence and Lateral Access Road Licences to TPI from each titleholder or occupier of land the subject of the proposed Railway and lateral access roads;
- consent from BHP Billiton for TPI’s proposed Railway to cross its railway at specified junctions;
- *Rail Safety Act 1998* (WA) accreditations;
- agreement of the Western Australian Minister for Planning and Infrastructure (“Planning and Infrastructure Minister”) to the route of the proposed railway and lateral access roads;
- agreement of the Planning and Infrastructure Minister of the location and characteristics of the Port infrastructure;
- approval from the Planning and Infrastructure Minister of TPI’s proposals to construct and operate the port and rail infrastructure;
- a Special Railway Licence;
- Lateral Access Road Licences;
- a Port Lease;
- a Port Additional Infrastructure Licence;
- a license for “borrow material”; and
- a license for construction of two accommodation camps.



Details of the process for obtaining these approvals is set out in further detail below.

TPI will also need to go through *Native Title Act 1993* (Cth) (“Native Title Act”) procedures in respect of the grant of the Special Railway Licence and Lateral Access Road Licences.

Fortescue has obtained approval from the Western Australian Minister for the Environment (“State Environment Minister”) to develop the Port, Railway and Christmas Creek and Cloud Break deposits, subject to prescribed conditions. Works at the Cloud Break deposit have also been approved by the Australian federal Minister for the Environment (“Federal Environment Minister”), subject to prescribed conditions.

In addition to these key approvals required to commence construction of the Project, further approvals in respect of the construction and operation of the mine, port and rail will be required. The Project Group will apply for these further approvals (e.g. works approvals, water licenses, land clearing permits, dangerous goods licenses, building permits, council approvals, etc.) as and when they are required during the life of the Project.

## **Mining Law**

### ***General***

The Mining Act regulates the assessment, development and utilization of mineral resources in Western Australia. In Western Australia, the State owns all minerals on or below the surface of the land, except in certain limited circumstances (relating to limited categories of land and minerals). As the owner of the minerals, the State is entitled to grant mining tenements which confer rights on lessees or licensees to explore for and mine minerals. The grant of a mining tenement is generally at the discretion of the Western Australian Minister for State Development (the “Mining Minister”) or a mining registrar appointed under the Mining Act.

Conditions are imposed on the grant of most tenements pursuant to the Mining Act. These include conditions relating to the environment, payment of annual rent, required minimum expenditure and a standard schedule of general exclusions and conditions established pursuant to the Mining Act. If the tenement conditions are not complied with, the tenement may be liable to forfeiture. Conditions imposed on the grant of a tenement pursuant to the Mining Act can be varied by entering into an agreement with the State of Western Australia (each, a “State Agreement”).

The main types of tenements granted under the Mining Act are exploration licenses, mining leases and miscellaneous licenses. Below is a summary of the standard terms of the types of tenements listed above granted under the Mining Act. As noted above, these standard terms can be varied by the provisions of a State Agreement. On February 10, 2006, the Mining Act was amended and the regime which applies to tenements applied for or granted on or after this date is slightly different to the regime which applies to tenements or tenement applications in existence before February 10, 2006. Both regimes are outlined below.

### ***Exploration Licenses***

The holder of an exploration license is authorized to carry out exploratory operations of a kind set out in the Mining Act and the exploration license within the license area in respect of any minerals except iron ore (unless expressly authorized by the Mining Minister). An exploration license granted or applied for before February 10, 2006 will remain in force for five years from the date of grant and may be renewed by the Mining Minister, in certain circumstances, for up to a total further period of four years, after which one or more extensions of one year are available in exceptional circumstances. An exploration license applied for on or after February 10, 2006 will remain in force for five years from the date of grant and may be renewed by the Mining Minister for five years (plus further renewals of two years each if prescribed grounds exist).

The land area of Western Australia is divided into “blocks”. An exploration license may be granted for areas of land not exceeding 70 “blocks.” From February 10, 2006 onwards, exploration licenses may be granted over

areas of up to 200 “blocks” in certain prescribed areas of Western Australia. In respect of exploration licenses granted or applied for before February 10, 2006, the area covered by the exploration license is required to be reduced by not less than 50% after the first three years of its term and again after the fourth year of its term. In respect of exploration licenses applied for on or after February 10, 2006, the area covered by the exploration license is required to be reduced by not less than 40% after the first five years of its term.

The holder of an exploration license generally has a right to convert the license to a mining lease, provided they have complied with the Mining Act and tenement conditions and obtained the necessary approvals, by making a conversion application during the term of the exploration license. If the exploration license was applied for on or after February 10, 2006, the licensee will need to show both the existence of significant mineralization in relation to the area to which the mining lease application relates and that the resource will be exploited.

Chichester holds several exploration licenses over the area of the Christmas Creek and Cloud Break deposits. Chichester has converted parts of certain exploration licenses to mining leases. Chichester has also lodged conversion applications (before February 10, 2006) to convert other parts of certain exploration licenses to mining leases at Christmas Creek and Cloud Break. Some of the mining leases the subject of the conversion applications have not yet been granted, as objections to the grant of the tenements have been lodged by titleholders whose interests in land may be affected by the proposed grant of a tenement. Such objections have not yet been determined in the Western Australian Warden’s Court. The mining lease applications are over approximately 5% of the estimated mineral resources at the Christmas Creek and Cloud Break deposits, and are part of the current mine plan. If the mining lease applications are not granted, Chichester intends to apply for further mining tenements in the Christmas Creek and Cloud Break area.

### ***Mining Leases***

The holder of a mining lease is entitled, subject to the Mining Act, to work and mine the land, take and remove any minerals (except iron ore, unless expressly authorized by the Mining Minister) and dispose of them, take and divert water subject to the Rights in Water and Irrigation Act 1914 (Western Australia), and do all things necessary to effectually carry out mining operations in, on or under the land. However, the grant of a mining lease does not in itself confer authority to produce minerals. Further approvals are generally required before production may commence, including approvals in respect of environmental impact.

The holder of a mining lease owns all minerals lawfully mined from the land in accordance with the mining lease. However, a royalty is payable to the State in respect of all minerals recovered from a mining lease at the rate prescribed for the relevant commodity in the Mining Act and Mining Regulations 1981 (Western Australia) (“Mining Regulations”).

Based on the current provisions of the Mining Act, a mining lease will remain in force for an initial term of 21 years and may be renewed for a further term of 21 years as of right. The Mining Minister may further renew the term of a mining lease for successive periods of 21 years each. A mining lease granted before February 10, 2006 may have an area not exceeding 10 square kilometers. In respect of mining leases granted on or after February 10, 2006, the Mining Minister has discretion to grant the mining lease over an area considered appropriate (and including sufficient land to encompass the resource and required infrastructure).

For a 12 month period, beginning on February 10, 2006, the holder of a mining lease application may apply to revert that application to an exploration or prospecting license application (with potential expenditure benefits).

Chichester holds several mining leases over the area of the Christmas Creek and Cloud Break deposits and has applied for further mining leases which have not yet been granted. Chichester has been granted the right to mine iron ore on all granted mining leases, subject to it obtaining approvals under, and complying with, the Mining State Agreement.

### *Miscellaneous Licenses*

A miscellaneous license may be granted pursuant to the Mining Act over any land where the use of that land is directly connected with mining operations and is for a prescribed purpose under the Mining Regulations (for example a road or pipeline). A miscellaneous license may be applied for over land that is the subject of an existing tenement, irrespective of whether that existing tenement is held by the applicant for the miscellaneous license. The holder of a miscellaneous license does not therefore have exclusive title to the land over which the miscellaneous license is granted.

A miscellaneous license that was applied for and granted after June 6, 1998 will remain in force for a term of 21 years, and may be renewed for a further 21 years as of right. The Mining Minister may further renew the term of a miscellaneous license applied for and granted after June 6, 1998 for successive periods of 21 years each. If granted, the Special Railway License and Lateral Access Road Licenses will be miscellaneous licenses. However, the Mining State Agreement varies the provisions of the Mining Act such that the Special Railway License may be granted for a 50-year term and the Lateral Access Road Licenses may each be granted for a four-year term. Chichester also intends to apply for further miscellaneous licenses for mining related infrastructure (e.g. roads and an aerodrome).

### *Mining State Agreement*

The Iron Ore (FMG Chichester Pty Ltd) Agreement between Chichester, Fortescue and the State was signed in December 2005 ("Mining State Agreement"). The parliamentary bill to ratify the Mining State Agreement has been ratified by the Lower House of the Western Australian Parliament but has not yet been ratified by the Upper House of the Western Australian Parliament. The Upper House of Parliament is in recess until August 22, 2006 and consequently the Bill cannot be considered by the Upper House of Parliament before this date. If the Bill does not commence as an Act by December 31, 2006, the Mining State Agreement terminates unless the parties agree otherwise. The Mining State Agreement sets out the procedure for Chichester to obtain the necessary Ministerial approvals from the Mining Minister needed to commence mining operations, alters the way that certain provisions of the Mining Act apply to the Mine Plan Tenements and places obligations on Chichester to implement measures to achieve various community and social benefits. The term of the Mining State Agreement is 50 years.

Chichester is initially obliged to continue its field and office engineering, environmental, heritage, market and finance investigations in order to submit detailed proposals in respect of its proposed mining activities by December 31, 2006 and have the proposals approved by the Mining Minister. This includes progressively exploring and carrying out geological investigations to delineate resources.

Before submitting the proposals, Chichester is obliged to consult with relevant local governments with respect to the need for community and social benefits in relation to the development proposals and to prepare, agree with the Mining Minister and subsequently implement a plan for achieving community and social benefits in connection with developments proposed.

The proposals submitted to the Mining Minister under the Mining State Agreement must be in respect of the production of at least 10 mtpa of iron ore from the Mine Plan Tenements and for iron ore transportation from the relevant mining leases. The proposals must also cover the location, area, lay-out, design, quantities, materials and time program for the commencement and completion of construction, or the provision, of matters including:

- mining and recovery of iron ore, including mining, crushing, screening, handling, transport and storage of iron ore and plant facilities;
- any beneficiation or further processing of iron ore proposed to be carried out;
- transportation of iron ore from the relevant mining leases by road or by rail spur line or conveyor connecting to the proposed railway;

- roads within the relevant mining leases and roads serving those mining leases;
- temporary accommodation and ancillary facilities for the mine workforce;
- water supply and disposal;
- energy supplies;
- a mine aerodrome;
- any other works, services or facilities desired by Chichester;
- residue disposal;
- any ancillary leases, licenses and land tenure; and
- use of local labor, professional services, manufacturers, suppliers, contractors and materials and measures to be taken with respect to the engagement and training of employees by Chichester.

At the time the proposals are submitted to the Mining Minister, Chichester must also provide evidence of marketing arrangements demonstrating its ability to sell iron ore produced in accordance with the proposals, its financial capacity to undertake the operations to which the proposals refer, accreditations under the Rail Safety Act which are required to be held by it for the construction of any rail spur and Chichester's readiness to carry out the proposals. The Mining Minister may approve a proposal, defer consideration of a proposal until other proposals are submitted or require a condition precedent to the giving of his/her approval. Further proposals will need to be submitted if any expansion of the Project is contemplated.

Subject to receiving the necessary environmental approvals, Chichester must implement the proposal as approved by the Mining Minister. The Mining State Agreement specifies that Chichester shall not produce more than 45 mtpa of iron ore without first obtaining further approvals from the Mining Minister. Further proposals will need to be submitted if an increase in the annual tonnage to above 45 mtpa is envisaged. Chichester is obliged to undertake investigations into the feasibility of establishing a processing plant to produce metal agglomerates and to provide reports of its investigations on the earlier of the date which is seven years from the date the first iron ore is transported from the Mine Plan Tenements or the date on which 100 million tonnes of iron ore is transported from the Mine Plan Tenements, whichever occurs earlier. Chichester must submit proposals to the Mining Minister for the establishment of such a plant within ten years of the date on which the first saleable ore produced is transported from the Mine Plan Tenements or the date on which 150 mt of iron ore is transported from the Mine Plan Tenements, whichever is earlier. Chichester may apply for a three year postponement of the obligation to submit the proposals if it does not consider the proposals to be economically feasible. The proposals must be in respect of the establishment of a plant for production of metal agglomerates which will within three years of the date on which the proposals are submitted have the capacity to produce not less than two mtpa of metallised agglomerates and will within eight years of the date on which the proposals are submitted have the capacity to produce not less than three mtpa of metallised agglomerates. If the proposals are approved by the Mining Minister, Chichester must construct the plant in accordance with the proposals within the prescribed timeframes.

Alternatively, Chichester may submit that an alternate project to establish and operate a plant which processes and adds value to minerals mined in Western Australia be accepted by the State in lieu of all or part of its obligations to construct the plant for production of metallised agglomerates. If the Mining Minister approves the alternate project, Chichester must implement the project in accordance with such Ministerial approval. If the alternate project represents economic development of value approximately equivalent to a plant for the production of two million tonnes of metallised agglomerate per annum, Chichester will not be obliged to submit proposals for the establishment of the metallised agglomerate plant.

Chichester, within its longer term mine plan, intends to establish a beneficiation plant, which may satisfy its obligations under the Mining State Agreement in respect of a project in lieu of the construction of the metallized agglomerates plant.

The Mining State Agreement provides that Chichester shall be responsible for obtaining the grant of any necessary mining tenement pursuant to the Mining Act. However, in respect of tenement applications within the Project area made after the commencement of the Mining State Agreement, the Mining State Agreement amends the Mining Act to remove the ability of any person to object to the grant of the tenement.

The Mining State Agreement exempts the Mine Plan Tenements from the expenditure obligations which would ordinarily apply under the Mining Act. The Mining State Agreement also specifies that a Mine Plan Tenement shall not be forfeited or determined otherwise than in accordance with the Agreement. Further, pursuant to the Mining State Agreement, Chichester must not surrender all or any part of a Mine Plan Tenement without the prior consent of the Mining Minister. Chichester is still required to comply with the reporting requirements under the Mining Act and is obliged to pay the relevant royalties prescribed by the Mining Act in respect of iron ore produced.

Chichester is obliged to permit the State and third parties with the consent of the State to have access to the Mine Plan Tenements provided that they do not interfere with Chichester's activities.

Chichester may install equipment of sufficient capacity to generate electricity for its activities on the mining leases in the Project and to transmit power within and between the mining leases and areas provided for its facilities. Chichester is obliged to use water obtained from dewatering on the mining leases for its purposes under the Mining State Agreement and to the extent practicable and economical, design, construct and operate all equipment so as to minimize water consumption.

Pursuant to the Mining State Agreement, Chichester is obliged, where possible, to use local labor, to use engineers, surveyors, architects and other professional consultants, project managers, manufacturers and suppliers from within Western Australia, to ensure that Western Australian suppliers, manufacturers and contractors are given a fair and reasonable opportunity to tender for contracts and to give preference to Western Australian suppliers, manufacturers and contractors when letting contracts or placing orders for works, materials, plant, equipment and supplies.

Some clauses of the Mining State Agreement are operational. However, the majority come into operation when the *Iron Ore (FMG Chichester Pty Ltd) Agreement Act* ("Mining State Agreement Act"), which ratifies the Mining State Agreement, comes into operation.

## **Port and Rail Construction Approvals and Regulations**

### ***Approvals required for establishment of the Railway and Port Facilities***

On November 10, 2004, TPI and Fortescue entered into a State Agreement in relation to the development of a multi-user railway ("Railway") and multi-user port facilities ("Port") in the Pilbara Region. The Infrastructure State Agreement was ratified by the State Parliament of Western Australia in the Railway and Port (The Pilbara Infrastructure Pty Ltd) Agreement Act 2004 ("Infrastructure Act"). The Infrastructure Act became operative on December 1, 2005 (when the Mining State Agreement was signed), except for Part 3 which relates to amendments to the Railways (Access) Act 1998 and Railways (Access) Code 2000 concerning access to the proposed railway.

The purpose of the Infrastructure Act is to facilitate the construction and operation of a railway by TPI from Cloud Break to the environs of the Port Hedland Port ("Port") and the construction of port infrastructure on land of the Port Hedland Port Authority ("PHPA"), on the proviso that TPI receives the necessary consents from the Planning and Infrastructure Minister and otherwise complies with its obligations under the Infrastructure Act. According to TPI's current plans, the railway will cease outside the Port and TPI will construct a conveyor, train unloader and other infrastructure to transport iron ore, freight goods or other products from the railway to within the Port boundaries.

Subject to TPI complying with its obligations under the Infrastructure Act, the State has agreed to facilitate the following:

- A Special Railway License—being a miscellaneous license under the Mining Act which will enable TPI to conduct within the Railway corridor all activities necessary for the planning, design, construction, commissioning, operation and maintenance of those parts of the railway that are outside of the Port (“Railway”), access roads and any additional infrastructure required to be constructed outside the Port;
- A Port Railway License—being a license granted under the Port Authorities Act for the construction, operation and maintenance of any part of the railway which is located within the Port (if required);
- A Lateral Access Roads License—being a miscellaneous license which will enable TPI to construct, use and maintain roads outside the Railway corridor for access to construct the Railway;
- Port Lease—being a lease with the PHPA over the area required for the Port Facilities. The Port Facilities are those necessary for the construction, operation and maintenance of a ship loading terminal which may include a conveyor, stockpiles, ore blending, screening and loading facilities and a wharf; and
- A Port Additional Infrastructure License—being a license for the construction, operation and maintenance of additional infrastructure and access roads including any train unloader, conveyor or other infrastructure to transport iron ore from the Railway to the Port Facilities.

Subject to TPI obtaining the necessary consents from any affected titleholders, the State agreed to facilitate the grant of authorizations for TPI to enter State land to conduct investigations to enable it to determine the site, nature and characteristics of the proposed rail and port infrastructure and submit proposals in respect of the construction and operation of the infrastructure. After conducting its investigations, TPI must seek Ministerial approval as to the proposed site of the Railway corridor, Lateral Access Roads, additional infrastructure located outside the Port, Port Lease, additional infrastructure located within the Port, Port Railway and the nature and characteristics of the Port Facilities. Once the Planning and Infrastructure Minister has approved the proposed location and characteristics of the Railway and Port infrastructure, TPI may undertake the necessary Native Title Act procedures (discussed in further detail below), obtain written consents from the titleholder of any land affected by the infrastructure and prepare the proposals required to be submitted for Ministerial approval prior to the Planning and Infrastructure Minister agreeing to effect the above-mentioned leases and licenses.

TPI must submit to the Planning and Infrastructure Minister, by August 31, 2006, detailed proposals addressing various matters including the timing, location, area, layout, design and materials for construction of the infrastructure or provision of the Railway including fencing and crossing places, the Port Facilities within the Port Facilities Area (being the area under the Port Lease in which the Port Facilities are to be constructed), that part of the Railway within Port boundaries (if any) and any additional infrastructure necessary for the transport of iron ore products, freight goods or other products from the Railway to the Port Facilities, temporary accommodation and ancillary facilities for the Railway workforce, water supply, energy supplies, access roads, other works, facilities or services required and the use of local labor, professional services, manufacturers, suppliers, contractors and materials.

At the time of submitting the last of the proposals, TPI must also demonstrate to the reasonable satisfaction of the Planning and Infrastructure Minister:

- that the Railway will have a capacity which enables the transport of not less than 70 mtpa of iron ore products;
- compliance with existing legislation including the Environmental Protection Act 1986 (Western Australia), the Native Title Act 1993 (Australian Commonwealth) and Aboriginal Heritage Act 1972 (Western Australia);
- all accreditations under the Rail Safety Act 1998 for the construction of the Railway;

- all arrangements or agreements for the Railway and access roads within the Railway corridor and Port Railway Area (being the area within the Port Railway License within which the Railway is to be constructed) to be genuinely “open access” infrastructure whereby third party access arrangements can be made pursuant to the Railways (Access) Act 1998 and the Railways (Access) Code 2000;
- that the written consent of each of the existing underlying landholders has been obtained in respect of the miscellaneous licenses required for the proposed rail and port facilities;
- the financial capability of TPI to undertake the operations referred to in the proposals; and
- the readiness of TPI to embark upon and proceed to carry out the operations referred to in the proposals.

The Planning and Infrastructure Minister must, within two months of the later of receipt of the proposals, the receipt of an authority under the Environmental Protection Act to make a decision that a proposal may be implemented, or completion of any Native Title Act procedures, notify TPI of his/her decision to approve all or part of each proposal, defer his/her decision until TPI submits further proposals, or require conditions precedent to be fulfilled before giving his/her approval.

On application by TPI not later than three months from the date the Planning and Infrastructure Minister approves the proposals and TPI has complied with any conditions precedent imposed by the Planning and Infrastructure Minister, the State shall grant TPI a Special Railway License for 50 years and a Lateral Access Road License for four years on such terms and conditions as the Mining Minister considers reasonable and at a rental calculated under the Mining Act. The licenses will be granted under the Mining Act, which will have a modified application to the relevant land. The licenses will terminate early if the Infrastructure State Agreement is terminated early. The licenses are not intended to provide exclusive possession of the land, and authorized third parties will be entitled to access the land on the basis that they do not unreasonably interfere with TPI’s operations.

Within the same time frame and provided TPI has complied with all of the relevant conditions, the State shall arrange to have the PHPA grant TPI under the Port Authorities Act a Port Lease together with a Port Additional Infrastructure License (if additional infrastructure is required) terminating on the same date as the Special Railway License (potentially a 50 year term) on terms and conditions, including rental, as the Planning and Infrastructure Minister may consider reasonable. The PHPA may not charge a rental on a basis which is different from the basis of charging other users or impose charges other than rentals for services or matters which are different from charges which the PHPA imposes on others, except where the difference can be commercially justified or recognizes a contribution to common user infrastructure or other particular exceptions. Following approval, TPI cannot expand the Project within the Port, namely, increase the capacity of the Port Facilities, change the nature and characteristics of the proposals or otherwise modify any of the activities approved by the Planning and Infrastructure Minister without prior Ministerial consent.

TPI will be obliged to have the Railway, Lateral Access Roads, Additional Infrastructure and Port Facilities constructed and operational within three years of the approval of the proposals and is obliged to keep the Railway and Port in operation in a safe and workmanlike manner, including maintaining it in good working order. Further approvals from the Planning and Infrastructure Minister will be required if any expansion or modification of the infrastructure is required.

TPI shall at all times be the holder of the Special Railway License, the Lateral Access Road Licenses, the Port Additional Infrastructure License and the Port Railway License and shall at all times own, manage and control the use of the Railway and all additional infrastructure under the Infrastructure State Agreement and shall not sell any part of the Railway or associated infrastructure. TPI must also be the holder of the Port Lease and shall at all times manage and control the use of the Port Facilities under the Infrastructure Act and shall not sell any part of the Port Facilities. The Infrastructure State Agreement allows for the assignment of rights under the Agreement, subject to certain conditions. The Planning and Infrastructure Minister has a discretion to consent or refuse to release TPI from continuing obligations in the event of an assignment.

## ***Status of grant of approvals required for establishment of the Port and Railway***

### ***Investigative licenses***

Pursuant to three Deeds of License between the State and TPI, the State has granted TPI non-exclusive licenses to enable it to conduct investigations for the purposes of determining a suitable route for the proposed railway, including over areas classified as “protected areas” under Aboriginal Heritage Act 1972 (Western Australia) (“Heritage Act”).

### ***Submission of Proposals***

The Infrastructure State Agreement currently requires the detailed proposals to be lodged by August 31, 2006 unless extended by the Planning and Infrastructure Minister. TPI informally submitted draft proposals in respect of the port and rail facilities to the Planning and Infrastructure Minister on July 3, 2006. However, formal proposals cannot be submitted until the route of the Railway and Lateral Access Roads and location and characteristics of the Port infrastructure have been agreed by the Planning and Infrastructure Minister and cannot be approved by the Planning and Infrastructure Minister until titleholder consents have been obtained by TPI. TPI will need to apply to extend the date for submission of proposals beyond August 31, 2006.

### ***Special Railway License***

***Woodstock/Abydos:*** The proposed rail corridor traverses the Woodstock/Abydos area which has been classified as a “protected area” under Section 19 of the Heritage Act. An order has been made under section 25(1) of the Heritage Act to vary the protected area to exclude the proposed route of the railway. That order was published on July 18, 2006. The order must be laid before both Houses of Parliament within 6 sitting days of it being published. The order may only be overturned if either House of Parliament passes a resolution disallowing the order within 14 sitting days of the order being laid before the House. The next sitting day of the Lower House is August 15, 2006 and the next sitting day for the Upper House is August 22, 2006. The Planning and Infrastructure Minister can not approve the route of the railway until this order becomes effective and the route of the railway is excluded from the protected area. Assuming the order is laid before the Houses of Parliament on the earliest available sitting days, the period within which it may be disallowed will not expire until September 28, 2006. The route of the railway will not be formally approved prior to this date. If the order is not laid before the Houses of Parliament on the first available sitting day the disallowance period may not expire until late October 2006.

***Consent from underlying landholders:*** The Infrastructure State Agreement requires TPI to obtain the consent of each underlying landholder to the grant of the Special Railway License over the part of the proposed rail corridor which traverses their land. TPI has identified, and is consulting the underlying titleholders who have interests such as pastoral leases and mining tenements in the area of the proposed rail corridor. TPI is in varying stages of consultation with the landholders to procure their written consent, in a form acceptable to the Planning and Infrastructure Minister, to the grant of the Special Railway License. TPI cannot obtain final written consents until the route of the proposed Railway has been agreed by the Planning and Infrastructure Minister. All consents must be obtained before the Special Railway License will be granted.

If a titleholder will not consent to the grant of the Special Railway License, the Infrastructure State Agreement empowers the State to resume land where in TPI’s opinion it is necessary for the Project and the Planning and Infrastructure Minister determines that it is appropriate to resume the land for the purpose of the Project (except in certain limited circumstances). However, the Planning and Infrastructure Minister has a discretion as to whether or not to take any land and TPI cannot compel the Planning and Infrastructure Minister to do so. Pursuant to the Land Administration Act 1997 (Western Australia), the State must compensate a person whose interest in land has been resumed and, pursuant to the Infrastructure State Agreement, TPI is required to reimburse the State for its costs in this regard. It is also possible that a landholder could seek to challenge or object to the proposed taking of their land and for a formal “taking order” to be issued under the Land Administration Act, which could take several months to finalize.



***Native Title Act procedure:*** As the grant of the Special Railway License (being a miscellaneous license under the Mining Act) may affect native title rights and interests, the procedures in the Native Title Act must be complied with. For a discussion of the Native Title Act, see “—Native Title Approvals and Law”.

The Native Title Act provides that the State must notify any registered native title claimant, native title body corporate and representative Aboriginal/Torres Straight Islander body in relation to the relevant land of the proposed grant of the miscellaneous license. The native title claimant or body corporate has two months to object to the grant of the miscellaneous license in so far as it affects their native title rights and interests. The applicant (in this case TPI) must then consult with any claimants and bodies corporate who object about ways of minimizing the impact on the registered native title rights and interests in relation to the relevant land, including access and the way the proposed activity will be undertaken.

Any claimant or body corporate who objects has a right to be heard by an independent body. The independent person or body can make a determination upholding the objection or imposing conditions on the acts, which the applicant for the tenement must comply with (unless the determination is overruled by the Planning and Infrastructure Minister in the interest of the State).

Once the proposed route of the rail corridor has been approved by the Planning and Infrastructure Minister, TPI will need to notify the relevant native title claimants and bodies in the areas through which its rail corridor will pass of its application for the Special Railways License. TPI will need to adhere to the procedures under the Native Title Act set out above before the Special Railways License can be granted. As TPI has entered into land access agreements with the Nyiyiparli, Kariyarra and Palyku native title claimants pursuant to which the claimants have agreed not to object to the grant of any tenure required for the Project, these claimants may not object to the grant of the miscellaneous license under the Native Title Act. Under the Infrastructure State Agreement, the Planning and Infrastructure Minister cannot approve the proposals until the Native Title Act procedure has been completed.

***Crossing BHP Billiton’s railway:*** The proposed Railway will cross BHP Billiton’s Mt Newman railway. Pursuant to the Iron Ore (Mount Newman) Agreement Act 1964, BHP Billiton must allow crossing places along its railway to the extent that it can do so without unduly prejudicing or interfering with its operations. TPI intends to provide BHP Billiton with a detailed proposal in respect of the rail crossings.

Similarly, TPI currently proposes crossing BHP Billiton’s Goldsworthy railway line by constructing a conveyor which will cross this railway outside of the Port. BHP Billiton’s rights in respect of its railway are governed by the Iron Ore (Mount Goldsworthy) Agreement Act 1964.

TPI will negotiate these crossings with BHP Billiton, but a formal written consent from BHP Billiton to the crossings cannot be sought until after the Planning and Infrastructure Minister has approved the route of the proposed Railway.

***Hope Downs rights to a rail corridor:*** Hope Downs Limited is a party to the Iron Ore (Hope Downs) Agreement Act 1992 (WA) (“HDL State Agreement”) pursuant to which HDL may have the right to obtain a rail corridor in relation to the area of land which overlaps with the Project Group’s proposed rail corridor. HDL does not currently hold tenure to a rail corridor under the HDL State Agreement. It is reasonable to assume that in approving the rail corridor proposed by the Project Group the Planning and Infrastructure Minister will wish to ensure that such approval does not prevent HDL from exercising its rights under the HDL State Agreement. TPI will be consulting HDL in relation to the proposed location of the Railway and will seek an acknowledgement from HDL that TPI has not blocked the area upon which HDL has a right to obtain a rail corridor.

#### *Lateral Access Road License*

The Infrastructure State Agreement requires TPI to obtain the agreement of the Planning and Infrastructure Minister as to the route of, and land required for, the Lateral Access Roads and the consent of each underlying

titleholder to the grant of the Lateral Access Roads License over the part of the license which traverses their land. The Planning and Infrastructure Minister has not yet agreed the routes of the Lateral Access Roads. TPI has identified, and is consulting, the underlying landholders in the area of the proposed lateral access roads. TPI must also follow the same Native Title Act procedures outlined above in respect of the Special Railway License before the Planning and Infrastructure Minister can approve the proposal in respect of the Lateral Access Road Licenses. However, TPI cannot obtain formal written consents from the underlying titleholders or begin the Native Title Act procedure until the Planning and Infrastructure Minister has approved the proposed location of the Lateral Access Roads.

On application by TPI within three months from the date the Planning and Infrastructure Minister approves the proposals, the State shall grant TPI a Lateral Access Road License for four years on such terms and conditions as the Planning and Infrastructure Minister considers reasonable and at a rental calculated under the Mining Act.

#### *Port Lease and License*

The Port Lease and Additional Infrastructure License (“Port Lease and License”) will extend over the area of the Port upon which the “Port Facilities” are to be constructed. The wharf, stockpile and screen house areas will be leased to TPI and the areas on which the conveyor, access roads and power and supply infrastructure will be constructed will be licensed to TPI. Once the Planning and Infrastructure Minister has agreed the proposed location of the Port Facilities and the nature and characteristics of the Port Facilities and Port Additional Infrastructure and approved TPI’s proposals, provided TPI has complied with all of the relevant conditions of the Infrastructure State Agreement, within three months of the Ministerial Approval the State must arrange for the PHPA to grant TPI under the Port Authorities Act a Port Lease and Additional Infrastructure License terminating on the same date as the Special Railway License (potentially a 50 year term) on such terms and conditions (including rental) as the Planning and Infrastructure Minister may consider reasonable.

The proposed terms of the Port Lease and License between the PHPA and TPI are currently being negotiated by the parties.

#### *Other licenses and approvals*

The Infrastructure State Agreement provides for the granting of a miscellaneous license to conduct activities necessary for the planning, design, construction and maintenance of the Railway. However, the Agreement specifically excludes the taking of stone, sand, clay and gravel within the Railway Corridor. In so far as such materials are required for the construction of the foundations of the Railway, separate authorisation will need to be sought, most likely in the form of a Section 91 License under the Land Administration Act.

The proposals submitted to the Planning and Infrastructure Minister will include a proposal for the construction of two accommodation camps within the Railway Corridor for the construction of the Railway. Licenses under Section 91 of the Land Administration Act will be required over the area on which the camps will be constructed.

TPI may also require additional licenses, including licenses under Section 91 of the Land Administration Act, to carry out certain construction-related activities on the Railway and Port. These licenses will be applied for by TPI as and when they are required, over such areas of land as are required.

### **Port and Rail Operation Approvals and Regulations**

#### *Operation of the Railway*

##### *Rail Regime*

Generally, Western Australian railways are administered by the Western Australian Economic Regulation Authority Rail (the “ERA”). The ERA was established on January 1, 2004 under the Economic Regulation

Authority Act 2003 to oversee the economic regulation of gas, rail, water and electricity services in Western Australia. It oversees, monitors and enforces compliance by railway owners with the Railway (Access) Act 1998 and the Railway (Access) Code 2000 (together, the “Regime”) in Western Australia.

The Regime facilitates the use of railway infrastructure by persons other than the railway owner. As a result of national competition policy, the Regime was created to give effect to the Australian 1995 Competition Principles Agreement on the States’ railway system to establish a framework which ensures the fair and transparent competition on designated rail networks in the State. Access seekers may seek to negotiate a commercial access agreement with railway owners in relation to a particular route on fair commercial terms based on regulated policies and practices established under the Act and Code. Carriage by rail is no longer the exclusive preserve of Commonwealth or State railway authorities.

At present, the Pilbara region railway lines are not covered by the Regime and the Railway is not a designated rail network for the purposes of the Code. The Infrastructure Act contemplates that the Regime will be proclaimed and apply to the Railway and the access roads within the Rail Corridor and the Port Railway Area (if any) (but not in relation to TPI’s rolling stock, maintenance facilities, offices, terminal yards, depots or associated facilities which is not designated Rail Infrastructure under the Infrastructure Act) as soon as possible after it is constructed and prior to the first use of the Railway for the carriage of iron ore. As a result, TPI will have to comply with the Regime and ensure that the infrastructure is “open access” by promoting access to, and attracting customers for, the Railway.

The Infrastructure Act anticipates amendments to the Regime and that TPI would have to comply with the provisions of the Rail Safety Act. TPI must ensure that it complies at all times with all obligations of a rail owner and operator under the Regime, including when entering into access arrangements with third parties.

#### *Rail Safety Act*

The Rail Safety Act 1998 applies to a railway within the State with a track gauge equal to or greater than 600mm and to the operation of any such railway. As the Railway is to be a standard gauge railway it will fall within the application of the Rail Safety Act, unless it is specifically excluded by that legislation, which does not appear to be the case.

TPI must obtain accreditation as an owner of the Railway under the Rail Safety Act 1998. Similarly, all rail operators are required to obtain accreditation under the Rail Safety Act 1998, or to engage the services of an accredited rail operator to carry on the proposed rail operations.

The Rail Safety Regulator in Western Australia grants rail accreditation to railway owners and operators. The National Rail Safety Accreditation Guideline applies to any new accreditations from January 31, 2005. The Rail Safety Regulator has granted TPI stage 1 accreditation for the construction of a railway line, expiring on May 15, 2007. As well as the general conditions which attach to all accreditations, TPI must comply with additional prescribed conditions under its interim accreditation.

The Director General (being the Chief Executive Officer of the department of the Public Service principally assisting the Planning and Infrastructure Minister in administration of the Rail Safety Act), must on application accredit an applicant as an accredited owner of a railway, if satisfied of certain prescribed matters.

The Director General must, on application, accredit an applicant as operator of a railway if satisfied of similar matters as are considered for the purposes of accrediting a rail owner.

An accredited owner must pay an annual fee by or at the time of accreditation or registration and in each subsequent year on or before the anniversary of the owner’s accreditation and must submit periodic returns to the Director General.

The owner and operator of a railway must comply with the Australian Rail Safety Standard and other safety standards to which they have agreed to comply under the Act as well as the provisions of their safety management plan. Breach of this provision could result in a penalty of A\$50,000. An accredited person is obliged to install and maintain or to maintain systems, devices, equipment and appliances on or with respect to a railway or rolling stock in accordance with the requirements of the Rail Safety Act and the person's accreditation. Breach of this provision could result in a penalty of A\$20,000.

The Rail Safety Act specifically requires the accredited owner or operator to ensure that they take all reasonable steps to ensure that railway employees who performs the rail safety work have the capacity and skills and are adequately trained to perform the work, are of sufficient good health and fitness to perform the work and are not affected by alcohol or drugs at the time of performing the work.

In addition, the Infrastructure Act requires TPI to construct the Railway (and associated railway infrastructure) and access roads in a proper and workmanlike manner and in accordance with recognized standards for railways of a similar nature operating under similar conditions.

Additional specific rail-related legislative requirements which TPI would have to observe include the Rail Safety Regulations, Dangerous Goods (Transport) (Explosives by Road and Rail) Regulations 1999, Dangerous Goods (Transport) (Road and Rail) Regulations 1999, Dangerous Goods (Transport) (Dangerous Goods in Ports) Regulations 1999 and sundry Australian Standards in relation to the construction, operation and maintenance of rail, rolling stock and associated rail infrastructure, plant and equipment.

### **Operation of the Port Authorities Act**

The Port Authorities Act 1999 (Western Australia) (the "Port Authorities Act") is an act which establishes within Western Australia port authorities (including Port Hedland), their functions, the areas which they are to control and manage and the way in which they are to operate. Each port authority is a body corporate and must have a board of directors which determines the policies and controls the affairs of the relevant port authority. A port authority is required to consult with the Planning and Infrastructure Minister before it enters into a transaction which amounts to a major initiative or is likely to be of major significant public interest.

Each port authority is vested with all State land in the Port including the seabed and shores and has exclusive control of such land subject to any direction given by the Planning and Infrastructure Minister.

Port authorities are charged with the following functions:

- facilitating trade within and through the port and planning for future growth and development;
- controlling business or other activities in or in connection with the port;
- ensuring the safe and efficient operation of the port;
- maintaining and preserving vested property and other property held by it; and
- protecting the environment of the port and minimizing the impact of port activities.

It is also a function of a port authority to do things that its board determines to be conducive or incidental to the performance of any of the above-mentioned functions. Further, port authorities have discretion as to how and when they perform their functions. However, in carrying out its functions, a port authority must act in accordance with prudent commercial principles and to try to make a profit.

Port authorities enjoy statutory protection from liability in relation to damage to vessels, immunity from liability for damaged goods, for delay in delivery of goods and for certain events and actions.

Port authorities are empowered to grant easements, leases and licenses in respect of port land (vested State land and any additional land which a port authority acquires). However, a port authority must obtain Ministerial approval before it can grant an easement, lease or license exceeding a term of five years. A port authority cannot enter into a lease or license if the term exceeds 50 years.

In addition, the Port Authorities Act requires a port authority to obtain Ministerial approval (with the Australian Treasurer's concurrence) before it enters into a major transaction, if during the life of the contract, the port authority is likely to receive amounts or things to a value totaling more than 20% of the written down value of its fixed assets, or during the life of the contract, it is likely to pay out amounts totaling more than 20% of the written down value of its fixed assets. To the extent that the exact amount to be received or paid is unknown at the time the transaction or agreement is entered into, the port is to make a "best estimate" of the amounts over the life of the relevant contract.

In the circumstances, TPI will require:

(a) a lease or leases with the PHPA over the stockpile area, the proposed berths and the seabed in the areas to be dredged by TPI including the berthing pocket, mooring basin or swing basin;

(b) a provision in the lease agreement providing TPI and the customers of TPI with a non-exclusive right to access the Port and any approach channels so that the vessels of TPI and its customers can berth at the wharf and access the facilities from time to time, subject to the normal operating procedures of the PHPA;

(c) non-exclusive licenses to use conveyors, rail unloaders and other facilities (including utilities for water and power) on Port land, either in the form of separate agreements, or as part of the lease; and

(d) non-exclusive licenses over any access roads within the Port, either in the form of separate agreements, or as part of the lease.

The Port lease and license, when finalized, is expected to cover some of these matters.

### ***Open Access to Port Facilities.***

The Infrastructure Act contemplates that prior to the time when iron ore products, freight goods or other products are first shipped from the Port Facilities, TPI must have in place and maintain at all relevant times an access regime that is approved by the Planning and Infrastructure Minister and which provides for access to the Port Facilities and Additional Infrastructure. The Planning and Infrastructure Minister shall have regard to the Australian 1995 Competition Principles Agreement.

TPI is obliged to promote access to, and attract customers for, the Railway and the Port Facilities and any Additional Infrastructure. Further, TPI shall, provided such investment can be justified commercially, invest in additional infrastructure to expand the capacity of the Port Facilities to accommodate demand for access.

### **Native Title Approvals and Law**

#### ***Native Title Law***

The common law of Australia recognizes a form of native title which, in circumstances where it has not been extinguished, reflects the entitlement of the indigenous inhabitants, in accordance with their laws or customs, to their traditional lands.

Native title may be extinguished by the valid exercise of governmental powers provided there was a clear and plain intention to do so. Since October 31, 1975 when the Racial Discrimination Act 1975 (Commonwealth of Australia) ("RDA") became operational, any act by a governmental authority intending to extinguish native title will only be lawful if the act complies with the provisions of the RDA.

The Native Title Act 1993 (Cth) (“Native Title Act”) has four main functions:

- It provides a procedural framework for indigenous people to claim native title rights in relation to land and water, and then for the courts to determine who the rightful claimants are and what their native title rights are;
- It validates past actions by the Commonwealth of Australia and State governments which, because of the existence of native title, would otherwise be invalid;
- It provides a framework within which Commonwealth and State governments can undertake future actions that may impact on native title; and
- It provides a mechanism by which holders of native title can claim, and have determined, compensation for acts done that in some way impact on their native title rights.

The Native Title Act sets out the procedures which must be followed when lodging an application for a determination of native title. These procedures require the Federal Court of Australia to refer a native title claim to the Native Title Registrar who must apply the registration test set out in the Native Title Act. If the Native Title Registrar considers that a claim satisfies the registration test, the claim is entered on the register of Native Title claims maintained by the National Native Title Tribunal (“Tribunal”). Upon registration, a native title claimant must prove its claim in the Federal Court, in order to have the native title recognized.

When native title is determined, the native title holders may make a further application to the Federal Court for a determination of what, if any, compensation may be payable for actions that have impacted on their native title rights in the past.

Certain rights arise upon registration of the native title claim which are not dependent on native title being proven in the Federal Court. The Native Title Act sets out procedures that are collectively known as the “right to negotiate”. Upon registration of a claim, the claimant is entitled to the “right to negotiate” with respect to certain “acts” that may affect native title. If the right to negotiate procedures are not complied with, the relevant “act” will be invalid to the extent that it affects native title.

The grant of a mining tenement is an “act” that may “affect” native title and (unless the mining tenement is wholly over native title clear land or land over which native title has been extinguished) is likely to attract the right to negotiate procedure. Native title may be extinguished by a grant of an interest in land which is wholly inconsistent with native title rights and interests (for example, freehold land). However, the granting of a lesser form of interest which is not wholly inconsistent with native title rights and interests (for example, an interest that does not confer exclusive possession) will not extinguish native title.

The right to negotiate procedure under the Native Title Act arises when a State or Territory gives written notice of its intention to grant a mining tenement. Under the Native Title Act only registered native title parties are entitled to negotiate. The State or Territory, the registered native title parties and the applicant for the tenement must negotiate in good faith with a view to agreeing to the grant of a tenement. If within six months the parties fail to reach an agreement, any party may apply to the Tribunal for a determination as to whether the tenement may be granted. The Tribunal must make its determination within six months.

The Native Title Act provides exceptions to the obligation to engage in the right to negotiate process, including an exception for acts which are mining-related acts for the sole purpose of constructing an infrastructure facility. If this exception applies, the State government must notify the native title holders, native title claimants and representative bodies being affected by the proposed act and must allow a two month period for objections to be lodged.

A company may negotiate an agreement with native title claimants addressing all relevant issues arising under the Native Title Act with respect to all mining tenement applications made by the company, within a defined geographical

region of the Native Title Claim area. Such an agreement may be registered as an Indigenous Land Use Agreement (“ILUA”) if it meets the prescribed criteria. A registered ILUA is binding on all native title claimants, even if they were not party to the agreement and the company will not have to engage in the right to negotiate process for the grant of mining tenements (within the area the subject of the agreement), provided the agreement contains a statement to that effect, as all matters that would otherwise be dealt with by this process are agreed.

#### *Native Title approvals*

The Project Group has identified the following registered native title claimant groups with native title claims over the Mine Plan Tenements and land on which the proposed Railway and Port facilities will be constructed:

- Nyiyaparli (in respect of some of the Mine Plan Tenements and part of the proposed rail corridor);
- Palyku (in respect of some of the Cloud Break Mine Plan Tenements and part of the rail corridor); and
- Kariyarra (in respect of the majority of the rail corridor as well as the port area at Port Hedland).

#### *Land access agreements*

Fortescue, TPI and Chichester have concluded land access agreements with the Nyiyaparli, Palyku and Kariyarra claimant groups, pursuant to which these claimant groups have consented to the grant of mining tenements over the Mine Plan Area and tenure required for the railway and port facilities for the life of the Project in exchange for:

- the establishment of the Fortescue Working Group and Fortescue Aboriginal Liaison Committee to facilitate negotiations with each of the claimant groups;
- the protection of the bio-physical environment;
- the protection of Aboriginal cultural heritage;
- cross cultural awareness though training in relation to Aboriginal culture and heritage;
- the provision of meaningful vocational training with guaranteed employment on successful completion of this training (the “Fortescue VTEC (Vocational Training and Employment Centre)”);
- the provision of commercial opportunities for indigenous enterprises on a first equal basis; and
- monetary compensation, including royalties.

The Land Access Agreements will not be registered as Indigenous Land Use Agreements under the Native Title Act. Accordingly, although the agreements are valid and binding as between the parties to them, native title holders (if any) who are not parties to the Land Access Agreements are not bound by them and may object to the doing of future acts, participate in the right to negotiate process and claim compensation.

#### *Granted Mine Plan Tenements*

Mining tenements granted since 1996 are valid if granted over land on which native title has been extinguished (such as freehold, “exclusive possession” leasehold or vested reserve land) or if the procedures under the Native Title Act have been complied with. Provided that the Native Title Act procedures were complied with when the Mine Plan Tenements were granted, these tenements are valid. The Project Group understands that it has been the practice of the State government to comply with the Native Title Act procedures when granting mining tenements.

#### *Applications for special railway license and lateral access road licenses*

TPI must comply with the procedure outlined in the Native Title Act before the Special Railway License and Lateral Access Road Licenses (being miscellaneous licenses for mining infrastructure) may be granted by

Planning and Infrastructure Minister. Refer to “Description of Certain Australian Legal Matters—Status of Grant of approvals for establishment of the port and railway—Special Railway License—Native Title Act procedure” for an outline of the relevant procedure.

Fortescue, TPI and Chichester have entered into land access agreements with the Nyiyaparli, Kariyarra and Palyku native title claimants, pursuant to which those claimants have agreed not to object to the grant of any tenure required for the Project. Accordingly, those claimants may not object to the grant of the Special Railway License or Lateral Access Road Licenses. However, it is possible that other native title holders who become registered in the relevant area (if any) may object.

#### *Applications for port leases and licenses*

Land at the port has been vested in the Port Hedland Port Authority, which has extinguished native title in the area. However, native title exists in areas surrounding the Port (some of which comprise State land), outside the land owned by the Port Hedland Port Authority and TPI may have to comply with the relevant Native Title Act procedure before certain tenure is granted over areas in which native title has not been extinguished.

#### *Aboriginal Heritage Law*

The Aboriginal Heritage Act 1972 (Western Australia) (“Heritage Act”) provides for the preservation of community places and objects customarily used by or traditional to Aboriginal people. The Heritage Act applies to all mining tenements in Western Australia and provides protection for significant sites of Aboriginal heritage.

It is an offense under the Heritage Act for a person to damage or in any way alter an Aboriginal heritage site or any object on or under an Aboriginal heritage site (which, amongst other things, include any sacred, ritual or ceremonial site of importance and special significance to people of Aboriginal descent) without obtaining the appropriate consent or authorisation under the Heritage Act. Section 16 of the Heritage Act provides that the Registrar of Aboriginal Sites, acting on the advice of the Aboriginal Cultural Materials Committee (“ACMC”), can authorize the entry upon, and excavation of, an Aboriginal heritage site. Section 18 of the Heritage Act provides that the Minister for Indigenous Affairs, again acting on the advice on the ACMC, may consent to a land owner (including a mining tenement holder) using their land in a way that would otherwise be likely to give rise to a breach of the Heritage Act. Authorizations (under Section 16) and consents (under Section 18) can be made with conditions attached.

A register of Aboriginal heritage sites is kept under the Heritage Act and administered by the Western Australian Department of Indigenous Affairs. However, sites and objects of significance to Aboriginal persons are protected by the Heritage Act whether or not those sites are registered under the Heritage Act, and there is no requirement for sites to be registered.

The Aboriginal and Torres Strait Islander Heritage Protection Act 1984 (Commonwealth of Australia) (“Heritage Protection Act”) may also apply to and protect significant Aboriginal areas and objects on the Mine Plan Tenements. The Heritage Protection Act aims to preserve and protect from injury or desecration areas and objects that are of particular significance to Aboriginal people in accordance with Aboriginal tradition. If the federal Minister for Families, Community Services and Indigenous Affairs considers that a significant Aboriginal area or object is under threat of injury or desecration, the Minister can make a declaration providing for the protection and preservation of the area or object. It is an offense to contravene a declaration or to damage, deface, or interfere with an Aboriginal object or place.

#### *Aboriginal Heritage Sites and Objects in the Project area*

To determine whether there are any Aboriginal heritage sites on the Project area, the Project Group has conducted archaeological and ethnographic heritage surveys over some parts of the Mine Plan Tenements and



land on which the proposed railway and port facilities will be constructed. Ethnological research involves the identification and recording of an Aboriginal heritage site through interviews and site inspections with Aboriginal consultants. An archaeological survey involves the excavation of a particular site and an analysis of the physical remains and artefacts found at the site. Additionally, there are registered Aboriginal heritage sites on some of the Mine Plan Tenements.

An Aboriginal heritage ethnographic “constraints” aerial survey was completed in December 2003 over the Christmas Creek mine area and southern part of the rail corridor, in which several significant ethnographic sites were identified. Specific work clearance program surveys have also been undertaken on some of the Mine Plan Tenements. Additionally, the register of Aboriginal sites maintained by the Western Australian Department of Indigenous Affairs documents several registered heritage sites on the Mine Plan Tenements at Christmas Creek. Heritage surveys have also been conducted over the land on which the proposed Port facilities will be constructed and parts of the land on which the proposed Railway will be constructed, in conjunction with the Kariyarra and Palyku native title claimants. Several archaeological and ethnographic sites were identified along the proposed rail corridor route and at the proposed location of the Port facilities.

TPI and Chichester may not be able to conduct mining or construction activities in the vicinity of any registered or unregistered Aboriginal sites that would damage or in any way alter the Aboriginal site. The Heritage Act provides that it is an offense for any person to excavate, destroy, damage, conceal or in any way alter any Aboriginal site unless acting with the authorization of the Registrar of Aboriginal Sites under Section 16 of the Act or the consent of the Minister for Indigenous Affairs under Section 18 of the Act. To date, Chichester and TPI have not identified any Aboriginal heritage sites which will preclude any proposed mining or construction activity in respect of the mine, rail or port.

The proposed rail corridor traverses the Woodstock/Abydos area which has been classified as a “protected area” under the Heritage Act. The area classified as a “protected area” has been varied to permit the proposed rail corridor to pass through it.

## **Environmental Approvals and Law**

### ***Environmental Law***

Environmental law in Western Australia is sourced in both legislation and common law. The environmental impact of mining activities (including sea and land transport) in Western Australia are principally regulated through the Mining Act and the *Environmental Protection Act 1986* (Western Australia) (“EP Act”). In addition, material obligations may arise under:

- (a) the Pollution of Waters by Oil and Noxious Substances Act 1987;
- (b) the Explosives and Dangerous Goods Act 1961;
- (c) the Dangerous Goods (Transport) Act 1998 (The Dangerous Goods Safety Act 2004 is forecast to be proclaimed and come into effect in 2006. When this occurs it will replace the Explosive and Dangerous Goods Act 1961 and Dangerous Goods (Transport) Act 1998);
- (d) the Rights in Water and Irrigation Act 1914;
- (e) the Conservation and Land Management Act 1984;
- (f) the Environment Protection and Biodiversity Conservation Act 1999 (Commonwealth of Australia) (“EPBC Act”);
- (g) the Wildlife Conservation Act 1950;
- (h) the Port Authorities Act 1999; and
- (i) other relevant Western Australian and Australian Commonwealth legislation.

The Mining Act requires mining companies to ensure that upon cessation of their activities the mine site is returned as far as possible to its previous natural condition. This broad objective is articulated through conditions imposed under the mining tenements issued to the tenement holder. Principle among these conditions is a requirement that a company, before it can start mining, must submit management plans for environmental protection, and must enter into a performance bond with a recognized financial institution. The performance bond will be called upon by the government in the event that the mining company fails to, or fails to adequately, rehabilitate the mine site upon closure. Most conditions are standard to all mining tenements and usually require a Notice of Intent to be submitted to the Environment Branch of the Western Australian Department of Industry and Resources (“DOIR”) stipulating the environmental requirements for the project. These obligations are enforced through the DOIR and tenements are liable to forfeiture for a breach of condition.

The EP Act provides four relevant sources of obligations:

- (a) Ministerial approval and statement of conditions;
- (b) works approvals and licenses;
- (c) general obligations not to pollute or cause environmental harm; and
- (d) Regulations and policies.

If a proposed industrial, mining or infrastructure activity presents a risk of significant impact on the environment, a company will be required to prepare, in advance of commencing operations, an environmental review document outlining the potential environmental impacts, and management plans for dealing with those impacts. This document will be reviewed by the Western Australian Environmental Protection Authority (“EPA”) which will forward recommendations to the State Environment Minister. If satisfied with the level of impacts, the State Environment Minister will subsequently issue a Ministerial approval and statement of conditions binding upon the company. In addition, and even where a project is not significant enough to attract a Ministerial approval and statement of conditions, some aspects of an operation will require licensing (such as refining operations or bulk loading facilities at ports).

The EP Act also imposes general obligations on all persons not to pollute, not to cause serious or material environmental harm and not to clear land without a permit, a breach of which will result in a penalty under the EP Act. An EP Act license authorizes the licensee to conduct activities that might otherwise be an offense under the EP Act. Work approvals and licenses are issued by the Chief Executive Officer of the Western Australian Department of Environment and Conservation. Failure to comply with the conditions in a Ministerial approval, or with conditions in a works approval or license, may lead to monetary penalties in addition to various court orders.

Under the Port Authorities Act 1999, one of the functions of Port Authorities (including the Port Hedland Authority) is to protect the environment and minimize the impact of port activities on the environment. As a result, licenses granted by the Port Authority may contain environmental management conditions.

### ***Environmental Approvals***

In accordance with Part IV of the EP Act, Fortescue has obtained approvals from the State Environment Minister in relation to the following stages of the Project:

- Stage A: Development of a port facility at Port Hedland and a 345 km railway between Port Hedland and Mindy Mindy (approval obtained in October 2005) (“Stage A”);
- Stage B: Development of two iron ore mines (Christmas Creek and Mindy Mindy) in the Pilbara and a 111 km railway from the eastern-most mine site to connect the Stage A north-south railway (approval obtained in December 2005) (“Stage B”); and
- Stage C: development of a third iron ore mine (Cloud Break) (approval obtained in April 2006) (“Stage C”) (collectively the “Ministerial Approvals”).

The Ministerial Approvals are three of a number of environmental approvals required for each stage of the Project. The grant of the Ministerial Approvals means that Fortescue can proceed to obtain the necessary further environmental approvals and can commence works (subject to conditions) after those approvals are obtained. As discussed below, further approvals, including under the EP Act, are required before the Project can proceed.

The Ministerial Approval for each of the three stages is subject to various conditions to address various environmental issues recognised by the EPA. The primary conditions attaching to the Ministerial Approvals for each of the three stages require Fortescue and the Project Group to:

- substantially commence each of the stages within five years;
- prepare and implement various environmental management plans approved by the Department of Environment and Conservation (“Department”);
- prepare an audit programme and submit compliance reports to the Department; and
- submit performance review reports to the Department every five years.

To date, various environmental management plans in relation to Stage A have been completed and approved by the Department. Fortescue will attend to all of the conditions contained in the Ministerial Approvals as the Project activities progress.

Fortescue referred the Stage A (in June 2004) and Stage B (in December 2004) works to the Commonwealth of Australia Department of Environment and Heritage (“DEH”) for a decision on whether those works required the Federal Environment Minister’s approval under the EPBC Act. The DEH decided that no approval was required for Stage A and B. Consequently, Fortescue can undertake the Stage A and B works (as described in the referral information provided to the DEH) without any approval or risk of prosecution or third party action under the EPBC Act).

In July 2005, Fortescue referred the Stage C (Cloud Break) works to the DEH for a decision on whether the Stage C works require the Federal Environment Minister’s approval under the EPBC Act.

In September 2005, the DEH decided that the Stage C works are a “controlled action” for the purposes of the EPBC Act and therefore required the Federal Environmental Minister’s approval. The DEH determined that the works are a “controlled action” on the basis that the works are likely to have a significant impact on listed threatened species and communities and listed migratory species. The DEH accredited the Western Australian Environmental impact assessment process for the purpose of the environmental assessment under the EPBC Act. Consequently, the EPA has assessed the environmental impacts of Stage C on the DEH’s behalf. The DEH received the EPA’s assessment in May 2006. The Federal Environment Minister has approved Stage C of the Project, subject to Fortescue preparing and implementing various environmental management plans approved by the Federal Environment Minister, undertaking surveys to locate populations of Night Parrots in the vicinity of the Fortescue Marsh and, if located, undertaking research on the Night Parrot, establishing a buffer zone around Night Parrot nesting sites and submitting annual compliance certificates.

In addition to the three Ministerial Approvals, Fortescue will need to obtain works approvals (before construction) and operating licenses (for operation) under Part V of the EP Act and other approvals and licenses in accordance with other legislation (particularly the *Dangerous Goods Safety Act 2004* (Western Australia) when it is proclaimed). No EP Act works approvals or operating licenses have been obtained to date. Fortescue has obtained some permits and licenses required under the *Rights in Water and Irrigation Act 1914* (Western Australia).

Dredging works (as part of Stage A) have commenced and Fortescue has obtained all necessary approvals, including a license from the Port Hedland Port Authority, for these works.

Fortescue is in the process of developing and implementing an environmental management system (“EMS”) that will assist it in proactively managing environmental issues and promoting environmental excellence. The

development of an environmental management plan will be a key element in the successful implementation of the EMS and will include plans for the management of specific environmental aspects of the construction and operation phases of the Project, including rehabilitation plans.

### **Other approvals required for the Project**

As the Project is still in the early stages of development, several permits, approvals, consents, licenses and leases (“Authorizations”) required to develop and operate the Project have not yet been sought or obtained by the Project Group (e.g. works approvals, water licenses, land clearing permits, dangerous goods licenses, building permits, council appraisals, etc.). The Project Group intends to apply for various additional Authorizations as and when they are required.

### **Foreign Investment Review Board**

The Foreign Investment Review Board is a non-statutory body established in 1976 to advise the Government on foreign investment policy and its administration. The Australian Government’s foreign investment laws and policies provide that a foreign person or company may not acquire an interest in “Australian urban land” unless prior notification of the proposed acquisition is given to the Treasurer of Australia and the Treasurer indicates that he has no objection to the acquisition. The definition of Australian urban land is very broad and includes, amongst other things, an interest as lessee or licensee in a lease or license (including, for example, a mining lease and miscellaneous license) or license giving rights to occupy Australian urban land where the term of the lease or license (including any extension) is reasonably likely, at the time the interest is acquired, to exceed five years. A corporation will be a “foreign person” for Foreign Investment Review Board purposes if:

- a natural person not ordinarily resident in Australia or a corporation incorporated outside the Commonwealth of Australia, together with their associates, either are in a position to control at least 15% of the voting power in the corporation or hold at least 15% of the issued shares in the corporation; or
- two or more such natural persons or corporations either are in a position to control at least 40% of the voting power in the corporation or hold at least 40% of the issued shares in the corporation,

unless the Australian Treasurer is satisfied that such a person or persons (together with their associates) are not in a position to determine the policy of the corporation. Fortescue is not currently a “foreign person”. If Fortescue were to become a “foreign person” notification to the Treasurer would be required in respect of any future acquisitions of Australian urban land that occur after the date on which it became a “foreign person”. Depending on the timing of becoming a “foreign person” and availability of certain exemptions, notifications may be required in relation to the acquisition of the Special Railway License and Lateral Access Roads Licenses (being a miscellaneous license under the Mining Act), the lease of the Port area and future grants of mining leases. If the Treasurer considers the acquisition is contrary to the national interest then he may oppose the acquisition.

Even if in the future Fortescue becomes a “foreign person” notification is not required in relation to the mining leases that have already been granted to it with respect to Christmas Creek and Cloud Break. Those granted mining leases, which are included in the Mine Plan Tenements, cover ground representing approximately 95% of the estimated mineral resources for the Project.

### **Australian Corporate Tax**

In Australia, the taxable income of both resident and non-resident companies is subject to corporate income tax at the rate of 30%. A company is resident in Australia if it is incorporated in Australia or, not being so incorporated, it carries on business in Australia and has either its central management and control in Australia or its voting power controlled by Australian resident shareholders. As an Australian incorporated company, FMG Finance and Fortescue are resident in Australia for income tax purposes.

The taxable income of a company is calculated as the difference between the company's assessable income and its allowable deductions. Assessable income includes income as is traditionally understood including sales income, interest, hedging profits, rent and royalties. All losses or outgoings incurred in producing such assessable income are allowable deductions except where they are capital in nature. Separate capital allowances are available in respect of capital expenditure including depreciation and amortization of mine development costs.

Plant and equipment is depreciable over its economic or effective life. Mine development expenditure that is not plant and equipment is amortized on a straight line basis over the life of the mine.

Tax losses incurred in any year are available to be carried forward indefinitely and set off against future income. Carry-backs are not permitted.

Australian income tax is a tax imposed and payable to the Federal Government of Australia. Individual states of Australia do not impose income tax.

Royalties are imposed by the State of Western Australia in respect of iron ore production. Broadly, the iron ore royalty payment is based on 7.5% of the royalty value of lump ore, 5.625% of the royalty value of fine ore and 5% of the royalty value of beneficiated ore.

### **Tax Consolidation**

FMG Finance and Fortescue (among other entities, including each subsidiary of Fortescue which is 100% owned by Fortescue) have been members of a "consolidated group" ("Consolidated Group") for Australian income tax and capital gains tax purposes with effect from July 1, 2002.

Prima facie, Fortescue as head company is liable for income tax liabilities and related liabilities such as penalties relating to the activities of the Consolidated Group. Prima facie therefore FMG Finance is not normally liable for those liabilities. However, under the tax consolidation regime in Australia, if Fortescue defaults then, subject to the limitations described below, each subsidiary including FMG Finance is prima facie jointly and severally liable for the tax liabilities of the Consolidated Group if it was a wholly owned subsidiary at any time during the period to which the liability relates.

Since July 1, 2002, the Consolidated Group has not had any tax liability of a type for which Fortescue may be jointly and severally liable. On that basis, such joint and several liability should be a risk, if at all, only at some time in the future.

This liability can be limited where the head company and subsidiaries enter into a valid Tax Sharing Agreement ("TSA"), and a statutory request by the Australian Taxation Office ("ATO") for a copy of that agreement is complied with. In that event, the liability (on default of the head company) to the ATO of each subsidiary is limited to the amount calculated under the TSA. To be valid, the agreement must (among other criteria) determine a "reasonable allocation" of the group liability among members of the group.

## MANAGEMENT

### Directors and Executive Officers

The following table sets forth information regarding Fortescue's directors and executive officers.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Gordon Toll	59	Chairman
Herb Elliott	68	Deputy Chairman
Andrew Forrest <sup>(1)</sup>	44	Chief Executive Officer and Director
Ken Ambrecht	60	Non-executive Director
Graeme Rowley <sup>(1)</sup>	66	Executive Director—Operations
Russell Scrimshaw	57	Executive Director—Commercial
Christopher Catlow <sup>(1)</sup>	45	Chief Financial Officer
Alan Watling	52	Head of Infrastructure
Peter Thomas	35	Chief Financial Officer, TPI
Peter Huston	50	General Counsel
Rod Campbell	46	Company Secretary
William Ramsey	54	Project Director
Eamon Hannon	34	Head of Exploration
James Williams	68	Head of Mining
Diane Dowdell	35	Head of Environment
Julian Tapp	50	Head of Government Relations
Dr John Clout	49	Head of Resource Strategy

(1) This person is also a director of FMG Finance.

Gordon Toll was appointed as a Non-executive Director of Fortescue in January 2005 and became Chairman in May 2005. He is a member of Fortescue's Audit Committee and Remuneration Committee. Mr. Toll previously held senior executive positions with BHP Billiton Ltd and Rio Tinto Plc and in those roles had experience in the development of iron ore projects in the Pilbara region of Western Australia. Mr. Toll is also Chairman of Linq Capital Ltd (responsible entity for Linq Resources Fund), Compass Resources NL and Eastern Mediterranean Resources and a non-executive director of Avocet Mining Ltd.

Herb Elliott was elected a Non-executive Director of Fortescue in October 2003 and became Deputy Chairman of Fortescue in May 2005. Mr. Elliott is Chairman of Fortescue's Audit Committee and is a member of Fortescue's Remuneration Committee. Mr. Elliott is also Chairman of Telstra Foundation Limited and a Director of Ansell Limited. His previous executive roles include President of PUMA North America. Mr. Elliott is the former inaugural Chairman of National Australia Day Committee and was a Commissioner on the Australian Broadcasting Commission.

Andrew Forrest has been Chief Executive Officer of Fortescue since April 2003 and was Interim Chairman of Fortescue from July 2003 until May 2005. Mr. Forrest is Chairman of Moly Mines Ltd, a director of Monarch Ltd and Chairman of The Australian Children's Trust. His previous roles include Chairman of Siberia Mining Corporation Limited (now Monarch Ltd), Chief Executive Officer and Deputy Chairman of Anaconda Nickel Limited (now Minara Resources Limited), Chairman of the Murrin Murrin Joint Venture, Director of the West Australian Chamber of Minerals and Energy and Chairman of Athletics Australia. Mr. Forrest has extensive experience in the mining sector with specific expertise in project finance.

Ken Ambrecht is a Non-executive Director of Fortescue and is a member of its Audit Committee. Mr. Ambrecht is the Managing Director of KCA Associates LLC, which provides investment advisory services. He is also a director of American Financial Capital Inc. and Great American Financial Resources Inc. Mr. Ambrecht was previously a Managing Director of First Albany Capital Inc. and a Managing Director of the high-yield bond division of the Royal Bank of Canada following a 25 year career in the capital markets division of Lehman Brothers.

Graeme Rowley has been Executive Director of Operations of Fortescue since 2003. Previously he was an executive with Rio Tinto Plc holding senior positions in Hamersley Iron and Argyle Diamonds. Mr. Rowley's previous directorships have included Dampier Port Authority, the Pilbara Development Commission, the Council for the West Pilbara college of TAFE and the Western Australian State Government's Technical Advisory Council. Mr. Rowley has experience in operational management of both iron ore ship loading facilities and heavy haul railway within the Pilbara region.

Russell Scrimshaw was a Non-executive Director of Fortescue from October 2003 through to June 2005, at which time he became Executive Director—Commercial. Mr. Scrimshaw is also Chairman of Fortescue's Remuneration Committee. Since becoming an executive director of Fortescue, Mr. Scrimshaw has relinquished previous non executive roles as Chairman of Fusia Ltd, non-executive Director of Mobilesoft Ltd and a director of Athletics Australia. He is a board member of the Garvan Institute Foundation and is an Associate Member of the Australian Society of Certified Practising Accountants. Mr. Scrimshaw previously held executive positions with the Commonwealth Bank of Australia, Optus, Alcatel, IBM and Amdahl USA.

Christopher Catlow has been Chief Financial Officer of Fortescue since September 2003 and Company Secretary since November 2003. Mr. Catlow has extensive experience in the resources sector, having previously been a Director of Consolidated Rutile Ltd and Sierra Rutile Ltd. He was also Executive General Manager Finance of Iluka Resources Limited and Chief Financial Officer of Energy Equity Corporation Limited and Gold Fields Australia Pty Ltd. Mr. Catlow is a Fellow of the Institute of Chartered Accountants in Australia.

Rod Campbell was appointed Joint Company Secretary of Fortescue in November 2004. Prior to that time Mr Campbell was State Manager Western Australia for Rabobank Australia Ltd and before that was a Senior Manager with State Bank NSW Ltd. Mr. Campbell holds a Bachelor of Agricultural Economics from the University of New England and also holds a Diploma from the Securities Institute of Australia.

Peter Huston has been providing the services of general counsel to Fortescue through his company Troika Legal Pty Ltd since January 2005. He has over 20 years experience in legal and commercial advisory roles. Prior to joining Fortescue, Mr. Huston spent 14 years as a partner in the Australian law firm of Deacons. Mr. Huston is Chairman of both Resolute Gold Ltd and Valhalla Uranium Ltd.

William Ramsey is Project Director and joined Fortescue in August 2005. He has extensive experience in project and construction management of large multi-discipline projects from concept through to commissioning and handover. Over the past 25 years, Mr. Ramsey has been the Construction Manager on one of world's largest and complex site preparation projects, the Project Manger on several major resource projects in Western Australia and has bid and managed EPC and turnkey projects worldwide, including a large Ferro Alloys complex in Saudi Arabia. Mr. Ramsey recently worked as the Project Manager for Anglo Gold on the feasibility study for the proposed A\$1.2 billion Boddington gold mine expansion and prior to joining Fortescue, Mr. Ramsey was the Project Manager for the Hope Downs project until it was acquired by Rio Tinto.

Alan Watling is Head of Infrastructure and joined Fortescue in July 2003. Mr. Watling has over 15 years experience in the operation of heavy haul rail, including supervisory leadership and management positions with Hamersley Iron Rail. Mr. Watling was also responsible for major new projects at Marandoo, Yandicoogina and Brockman lending project development and senior operations experience.

Peter Thomas is Chief Financial Officer of one of the Project subsidiaries, The Pilbara Infrastructure Pty Ltd. Mr. Thomas joined Fortescue in January 2005. He has an MBA from Harvard Business School and also has extensive practical experience in corporate finance particularly in the areas of debt and equity finance and mergers and acquisitions. Mr. Thomas spent five years at Lehman Brothers and previous to that worked with Anaconda Nickel and McKinsey & Company. Immediately prior to joining Fortescue, Mr. Thomas was a Senior Manager in the Corporate Mergers & Acquisitions Group of Novartis AG.

Eamon Hannon is Head of Exploration and joined Fortescue in March 2004. He has over ten years of experience in minerals exploration. Mr. Hannon specializes in remote exploration having successfully operated in Tanzania, Mexico and Mongolia. His exploration expertise includes iron ore and a wide variety of other minerals and metals. Mr. Hannon's experience also includes the development of mining operations overseas as well as in Australia.

Jim Williams is Head of Mining and joined Fortescue in December 2003. He has over 40 years experience in open pit, underground and alluvial mining including more than 16 years in Central and Southern Africa and Australia. Prior to joining Fortescue, Mr. Williams spent six years as a mining engineering consultant for Bechtel followed by 17 years in private practice. Mr. Williams has conducted technical and financial reviews of a large number of feasibility studies on behalf of various banks including Standard Chartered and more recently by Dresdner Bank who retained him as Resource Consultant. Mr. Williams has experience in many mineral commodities, from coal and iron through base metals to precious metals.

Diane Dowdell is Head of Environment and joined Fortescue in July 2005. She has ten years experience in environmental management having done project work involving both Australian state and federal government agencies. Ms. Dowdell has worked in a variety of roles, most recently as a Senior Project Coordinator with the Western Australian Department of Environment. Ms. Dowdell has also worked for both environmental and business consultants in Western Australia and Queensland providing advice in developing environmental impact assessments, business and marketing plans, strategies and feasibility studies.

Julian Tapp is Head of Government Relations and joined Fortescue in February 2004. He has an extensive background in economics and finance having lectured at the London School of Economics and held positions at BP, Ford and British Aerospace. More recently Mr. Tapp was Director New Business Development for BAeSystems managing both financial and legal aspects of special projects in the Middle East and an independent consultant specializing in international venture capital projects.

Dr. John Clout has been Head of Resource Strategy since August 2004. He has extensive experience in the iron and steel industry, having spent 12 years working at the Australian Commonwealth Scientific and Research Organisation in roles including Science Adviser for Mine Processing. Dr. Clout has previously advised many of Asia's and Australia's iron ore and steel related companies on their international metallurgical strategies and technical marketing. Dr. Clout has a Bachelor of Science (Ore Mineralogy) from the University of Sydney and a Doctorate in Ore Petrology, Mineralogy and Structural Geology from Monash University. Dr. Clout has also served as an adjunct professor in the Mineral Processing (Sintering), Iron and Steel Department at Central South University ("CSU") in Changsha, China, as well as in the School of Julius Kruttschnitt Mineral Research Centre at the University of Queensland.

## **Board of Directors**

Pursuant to Fortescue's Constitution, its Board of Directors must comprise at least three directors and no more than 12 directors. The Constitution also requires that at each annual general meeting, one third of the directors must resign with those directors who have served the longest being subject to rotation first. Additionally, pursuant to the Constitution, any new director appointed by the Board within a year must retire at the next annual general shareholders meeting to be then offered for re-election.

Fortescue's Board of Directors is responsible for the overall corporate governance of Fortescue and its wholly-owned subsidiaries.

The Board's responsibilities include:

- appointing the Chief Executive Officer;
- determining the strategic direction of Fortescue as an outcome of executive management recommendations and measuring performance against approved strategies;



- adopting operating budgets at the commencement of each fiscal year and monitoring progress on a regular basis against budget by both financial and non-financial key performance indicators;
- monitoring and overseeing Fortescue's financial position and risk management priorities;
- evaluating the performance of the Chief Executive Officer and determining remuneration;
- determining that satisfactory arrangements are in place for auditing Fortescue's financial affairs;
- ensuring that policies and compliance systems consistent with Fortescue's objectives and industry best practice are in place and providing the necessary framework for Fortescue and its officers to act legally, ethically and responsibly on all matters; and
- ensuring a reasonable view of all stakeholders is taken into account.

To assist the Board in achieving high standards of corporate governance, the Board has established an Audit Committee and a Remuneration and Nomination Committee, both constituted with a majority of non-executive directors.

### **Audit Committee**

The Audit Committee must comprise at least three Non-executive Directors with the Chairman of the Committee to be a Non-executive Director. Current members of the Audit Committee are Herb Elliot (Chairman), Gordon Toll and Ken Ambrecht. Where thought appropriate, Fortescue's Chief Financial Officer and external auditors are invited to attend meetings. The Audit Committee meets and reports to the Board at least twice each fiscal year. The role of the committee is to advise the Board on all financial and corporate governance matters and to be the focal point of communication between the Board, management and external auditor on those matters.

The duties of the Audit Committee include:

- reviewing annual and interim financial statements;
- monitoring the accounting procedures, internal controls, policies and compliance with the Corporations Act and listing rules of the Australian Stock Exchange, reviewing external audit reports and ensuring prompt remedial action if necessary;
- nominating and recommending the remuneration for, and monitoring the scope and performance of, the external auditor;
- reviewing and ensuring the general observance of all appropriate corporate governance systems and procedures within Fortescue;
- reviewing the effectiveness of management information and other systems of internal control;
- reviewing all areas of financial risk and arrangements in place to contain those to acceptable levels; and
- reviewing significant transactions that are not a normal part of Fortescue's business or are outside of delegation.

### **Remuneration and Nomination Committee**

The Remuneration and Nomination Committee comprises three Directors (including a majority of independent Directors). Current members of the Remuneration and Nomination Committee are Russell Scrimshaw (Chairman), Gordon Toll and Herb Elliot. The duties of this committee include advising the Board with respect to:

- remuneration of the Chief Executive Officer and the Executive Directors;
- remuneration of other executive officers;
- short-term and long-term incentive plans;

- recruitment, retention and termination policies;
- CEO succession planning;
- nomination and review of applicants for a directorship on the Board; and
- recommend appointments to Board committees.

### **Employment Agreements**

Fortescue's Chief Executive Officer, Andrew Forrest, entered into an Executive Employment Agreement with Fortescue in April 2003 for an initial term of two years with the option to renew for an additional two years, which option was exercised in April 2005. His current employment agreement will therefore terminate in April 2007. Mr. Forrest may terminate the agreement early upon three months written notice while Fortescue may only terminate the agreement for cause. The agreement provides for an initial annual salary of A\$100,000, which is reviewed annually by the Board. Also in April 2003, Fortescue entered into a Memorandum of Agreement with Metal Holdings Pty Ltd, which is controlled by Mr. Forrest. The Memorandum of Agreement provides for the issuance to Metal Holdings of 5,000,000 ordinary shares and options to acquire an additional 10,000,000 ordinary shares of Fortescue. The remuneration and incentive package contained in the Memorandum of Agreement together with that in Mr. Forrest's employment agreement constitute his complete remuneration package. He subsequently received other various options that he has exercised such that he currently owns 102,307,830 ordinary shares.

Fortescue has entered into Letters of Engagement with most of Fortescue's executive officers which set out the salary and superannuation (retirement) benefits of employment, as well as basic terms and conditions of employment and an employees' code of conduct. Under the terms of these letters, Fortescue or the employee may terminate the employment at any time upon giving between one and three month's written notice.

### **Compensation of Directors and Executive Officers**

For information on the compensation of Fortescue's directors and Fortescue's five most highly paid executive officers in fiscal 2006, please see the Directors' Report included in this offering memorandum commencing on page F-2.

### **Fortescue Metals Group Incentive Option Scheme**

Shareholders of Fortescue approved the Fortescue Metals Group Incentive Option Scheme (the "IOS") in November 2005.

The IOS is designed to provide Fortescue's full time employees, part time employees, directors and consultants ("eligible participants") with an ownership interest in Fortescue and to attract, motivate and retain them. The Board may from time to time, in its absolute discretion, offer to grant options to eligible participants under the IOS. Each option is issued for no consideration and carries the right in favor of the option holder to subscribe for one ordinary share of Fortescue.

The Board may determine the exercise price of the options in its absolute discretion but in any event the exercise price must be not less than the greater of:

- (a) the weighted average of the sale price on ASX of the shares for each of the five trading days on which a sale of shares was effected immediately preceding the dates on which any options were issued to any participant; or
- (b) 20 Australian cents

### ***Conditions of Exercise***

Unless otherwise agreed by the Board, a participant may not:

- during the period commencing after 12 months and ending prior to 24 months from the date of issue of the options, exercise more than 25% of the options issued to that participant on the date of issue;
- during the period commencing after 24 months and ending prior to 36 months from the date of issue of the options, exercise more than 50% of the options issued to that participant on the date of issue; and
- during the period commencing after 36 months and ending prior to 48 months from the date of issue of the options, exercise more than 75% of the options issued to that participant on the date of issue.

### ***Lapse of Options***

Generally, options lapse immediately if:

- the eligible participant ceases to be an employee or director of, or to render services to, Fortescue for any reason whatsoever and the conditions for exercise of the options have not been met;
- the exercise conditions of the options are unable to be met;
- the date which is five years after the date of the grant of the options, or such other expiry date as the Board determines in its discretion at the time of grant of the option (the “Lapsing Date”) has passed; or
- the expiry of 30 days after the eligible participant ceases to be an employee or director of, or to render services to, Fortescue for any reason whatsoever prior to the Lapsing Date where the exercise conditions have been met, whichever is earlier.

### ***Participation in Future Equity Offers***

There are no participating rights or entitlements inherent in the options and holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the options. However, Fortescue will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least seven business days after the issue is announced. This will give option holders the opportunity to exercise their options prior to the date for determining entitlements to participate in any such issue.

If Fortescue makes a pro rata issue of securities (except a bonus issue) to the holders of shares (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) the exercise price of the options shall be reduced in accordance with the formula in the ASX Listing Rules.

In the event of a bonus issue of shares being made pro-rata to shareholders (other than an issue in lieu of dividends), the number of shares issued on exercise of each option will include the number of bonus shares that would have been issued if the option had been exercised prior to the record date for the bonus issue. No adjustment will be made to the exercise price per share of the option.

### ***Trigger Events***

Upon the occurrence of certain trigger events (for example, in connection with a proposed acquisition of Fortescue), the Board may determine:

- that the options may be exercised at any time from the date of such determination, and in any number until the date determined by the Directors so as to permit the holder to participate in any change of control arising from a trigger event, provided that the Directors advise each holder in writing of such determination. Thereafter, the options shall lapse to the extent they have not been exercised; or
- to use their reasonable endeavors to procure that an offer is made to holders of options on like terms (having regard to the nature and value of the options) to the terms proposed under the trigger event in

which case the Directors shall determine an appropriate period during which the holder may elect to accept the offer and, if the holder has not so elected at the end of that period, the options shall immediately become exercisable and if not exercised within ten days, shall lapse.

#### **Share Ownership of Directors and Executive Officers**

Mr. Forrest, through The Metals Group Pty Ltd, beneficially owns 43.04% of Fortescue's ordinary shares. Upon closing of the investment by Leucadia, Mr. Forrest will beneficially own approximately 38.74% of Fortescue's ordinary shares. See "Principal Shareholders and Related Party Transactions".

Each of Fortescue's other directors and executive officers owns less than 1% of Fortescue's ordinary shares.

#### **Services Agreement**

Each member of the Project Group has entered into the Services Agreement with Fortescue pursuant to which Fortescue has agreed to provide managerial and administrative services to the members of the Project Group. A summary of the Services Agreement appears below in the description of "Related Party Transactions".

## PRINCIPAL SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### Principal Shareholders

The following table sets out, as of July 24, 2006 and on a pro forma basis to give effect to the issuances of 26,400,000 shares of Fortescue and Leucadia that is scheduled to occur concurrently with the closing of the Offering, persons known to Fortescue (through substantial shareholder notices lodged with the Australian Stock Exchange) to be the holder of more than 5% of its ordinary shares.

	<u>Number of shares owned</u>	<u>Actual Percent of class</u>	<u>Pro forma Percent of class</u>
The Metals Group Pty Ltd <sup>(1)</sup> .....	102,307,830	43.04%	38.74%
HMC Investors LLC <sup>(2)</sup> .....	35,449,774	14.91%	13.42%
Leucadia National Corporation .....	—	—	9.99%

- (1) The Metals Group Pty Ltd is controlled by Andrew Forrest, Chief Executive Officer of Fortescue.
- (2) The substantial shareholder notice of HMC Investors LLC includes shares owned by Philip Falcone, Raymond J. Harbert, Harbert Management Corporation, Alpha US Sub Fund VI LLC and subsidiaries of HMC Investors LLC.

### Related Party Transactions

David Forrest, the brother of the Chief Executive Officer of Fortescue, Andrew Forrest, is a director and shareholder of Ashburton Air Services, which provides aerial services in the Pilbara region. Fortescue paid A\$104,701 and A\$132,824 in fiscal years 2005 and 2006, respectively, to Ashburton Air Services for aviation services at commercial rates.

One of Fortescue's directors, Ken Ambrecht, was also a director and shareholder of First Albany Capital Inc. when it provided financial services to Fortescue in fiscal 2005. Fortescue paid A\$633,392 to First Albany Capital Inc. in fiscal 2005 for financial services at commercial rates. Mr Ambrecht has since left First Albany Capital and, in his personal capacity, assisted in arranging the US\$200 million Bridge Loan. The Board may consider remunerating Mr. Ambrecht for services he performed in this regard but an amount has not yet been agreed. Notwithstanding, any such remuneration would be done on strictly commercial terms.

In April 2006, Fortescue's Board of Directors authorized the company to indemnify Andrew Forrest for his legal costs incurred in connection with an investigation by ASIC. If Mr. Forrest were found to be liable by a court, then he would be obligated to reimburse Fortescue for any of his legal costs that it has paid. To date, Fortescue has not paid any legal costs of Mr. Forrest. See "Risk Factors—Operating Risks Relating to the Business of the Project Group".

### Services Agreement

Each member of the Project Group has entered into the Services Agreement with Fortescue pursuant to which Fortescue has agreed to provide managerial and administrative services to the members of the Project Group. The services to be provided by Fortescue or its personnel in relation to business of the Project Group include:

- assuming and exercising the powers and performing the duties from time to time vested in Fortescue or its personnel by the Board of Directors of each member of the Project Group;
- providing administration, accounting, financial, company secretarial, corporate, public relations, marketing and government liaison services;
- exploration and mining services including preparing geological reports and feasibility reports, and services relating to the design, engineering and construction of facilities;

- advising on the acquisition of materials, supplies, equipment and services required by the Project Group;
- human resources services including managing the hiring of employees;
- managing the acquisition and maintaining of licenses and approvals; and
- preparing reports, maintaining records and preparing programs and budgets.

Fortescue does not have any power under the Services Agreement to cause the issue of any capital in any of the Project Group or to issue or create any securities or make calls on capital of any of the Project Group.

Fortescue is required to perform its duties under the Services Agreement with professional skill as a manager and consultant to the Project Group, in a workmanlike and commercially reasonable manner and in accordance with sound industry practice. It must comply with the policies and directions of the Board of Directors of each member of the Project Group. Fortescue is obliged to provide experienced and skilled personnel to perform the services.

Fortescue is to be paid a monthly fee not in excess of A\$3 million to fully compensate Fortescue for the total of all costs, expenses and liabilities (whether of a capital or operating nature) incurred or properly provided for by Fortescue during that month, and which are directly attributable to the management and conduct of the business of the Project Group in accordance with the Services Agreement, including staff wages and other allowances and a proportion of Fortescue's general administrative and overhead expenses.

## DESCRIPTION OF THE SENIOR SECURED NOTES

The Senior Secured Notes will be issued pursuant to an indenture, to be dated \_\_\_\_\_, 2006, between FMG Finance, The Bank of New York, as the indenture trustee (the "Trustee"), Fortescue and the Project Guarantors (the "Indenture").

The following description is a summary of the material provisions of the Senior Secured Notes, the Indenture pursuant to which the Senior Secured Notes will be issued, the guarantees being provided with respect thereto, and the Security Documents. The following summary does not purport to be a complete description of the agreements described therein and is subject to, and qualified by reference to the agreements. You should read the Senior Secured Notes, the indenture, the guarantees and the security documents because they, and not this summary, define your rights as a Holder of the Senior Secured Notes. Copies of the Senior Secured Notes, the Indenture, the Guarantees and the Security Documents will be available for inspection during normal business hours at the corporate trust office of the Trustee for the Senior Secured Notes.

You can find the definitions of certain terms used in this description of the Senior Secured Notes under the caption "—Certain Definitions" below. Defined terms used in this description but not defined below under "—Certain Definitions" have the meanings assigned to them in the Senior Secured Notes, the Indenture, the Guarantees or Security Documents.

### **Principal, Maturity and Interest**

#### *Fixed Rate Notes*

FMG Finance will issue US\$ \_\_\_\_\_ million in aggregate principal amount of the Fixed Rate Notes. The Fixed Rate Notes will mature on \_\_\_\_\_.

The Fixed Rate Notes will bear interest at the rate of \_\_\_\_\_ % per year. The Fixed Rate Notes will bear interest on the principal amount from the Issue Date, or, if interest has already been paid or prepaid, from the most recent date to which interest has been paid or duly provided, until the Fixed Rate Notes are paid in full, or until funds are made available for their payment in full in accordance with the Indenture. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest will be payable upon maturity (or earlier redemption or repurchase) and semi-annually in arrears on \_\_\_\_\_ and \_\_\_\_\_ of each year, beginning on \_\_\_\_\_, 2007 to Holders of record at the close of business on the \_\_\_\_\_ or \_\_\_\_\_ (whether or not a Business Day) immediately preceding such interest payment date. Each payment of interest on the Fixed Rate Notes will include interest accrued through the day before the applicable interest payment date or upon maturity (or earlier redemption or repurchase), as the case may be. Any payment required to be made on any date that is not a Business Day will be made on the next succeeding Business Day as if made on the date that payment was due and no interest will accrue on that payment for the period from and after the date that payment was due to the date of payment on the next succeeding Business Day. In the event of the maturity, redemption or repurchase of a Fixed Rate Note as described below, interest will cease to accrue on such note under the terms of and subject to the conditions in the Indenture.

The Fixed Rate Notes will be issued only in fully registered form, without coupons, in denominations of US\$2,000 of principal amount and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Fixed Rate Notes, but FMG Finance may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

#### *Floating Rate Notes*

The Floating Rate Notes are being initially offered in the aggregate principal amount of US\$ \_\_\_\_\_ million and will be issued in minimum denominations of US\$2,000 and integral multiples of US\$1,000. The Floating Rate Notes will mature on \_\_\_\_\_.

Interest on the Floating Rate Notes will accrue at a floating rate as determined in accordance with the procedures described below. The Floating Rate Notes will bear interest beginning on the Issue Date or, if interest has already been paid or prepaid, from the most recent date to which interest has been paid or provided for. FMG Finance will pay interest quarterly to Holders of record of Floating Rate Notes at the close of business on the \_\_\_\_\_, \_\_\_\_\_ or \_\_\_\_\_ immediately preceding the interest payment date on \_\_\_\_\_, \_\_\_\_\_ or \_\_\_\_\_ of each year. FMG Finance will begin paying interest to Holders of Floating Rate Notes on \_\_\_\_\_, 2006.

The Floating Rate Notes will bear interest for each interest period at a rate determined by The Bank of New York, acting as calculation agent. The interest rate on the Floating Rate Notes for a particular interest period will be a per annum rate equal to LIBOR as determined on the interest determination date, plus \_\_\_\_%. The interest determination date for an interest period will be the second London business day preceding the first day of such interest period. The interest determination date for the Floating Rate Notes for the first interest period is \_\_\_\_\_, 2006. Promptly upon determination, the calculation agent will inform the Trustee and FMG Finance of the interest rate for the next interest period. Interest on the Floating Rate Notes will be calculated on the basis of the actual number of days in an interest period and a 360-day year. Absent manifest error, the determination of the interest rate by the calculation agent will be binding and conclusive on the Holders of the Floating Rate Notes, the Trustee and FMG Finance.

“LIBOR” means the London interbank offered rate. “London business day” is a day on which dealings in deposits in U.S. dollars are transacted in the London interbank market.

On any interest determination date, LIBOR will be equal to the offered rate for deposits in U.S. dollars having an index maturity of six months, in amounts of at least US\$1.0 million, as such rate appears on Telerate Page 3750 at approximately 11:00 a.m., London time, on such interest determination date. If Telerate Page 3750 is replaced by another service or ceases to exist, the calculation agent will use the replacing service or such other service that may be nominated by the British Bankers’ Association for the purpose of displaying LIBOR for U.S. dollar deposits.

If no offered rate appears on Telerate Page 3750 on an interest determination date at approximately 11:00 a.m., London time, then the calculation agent (after consultation with FMG Finance) will select four major banks in the London interbank market and will request each of their principal London offices to provide a quotation of the rate (expressed as a percentage per annum) at which deposits for a three-month period (beginning on the second London business day after the interest determination date) in U.S. dollars in amounts of at least US\$1.0 million are offered by it to prime banks in the London interbank market, on that date and at that time, that is representative of single transactions at that time. If at least two quotations are provided, LIBOR will be the arithmetic average of the quotations provided. Otherwise, the calculation agent will select three major banks in New York City and will request each of them to provide a quotation of the rate (expressed as a percentage per annum) offered by them at approximately 11:00 a.m., New York City time, on the interest determination date for loans in U.S. dollars to leading European banks having an index maturity of three months in an amount of at least US\$1.0 million that is representative of single transactions at that time. If three quotations are provided, LIBOR will be the arithmetic average of the quotations provided. Otherwise, the rate of LIBOR for the next interest period will be set equal to the rate of LIBOR for the then-current interest period.

All percentages resulting from any of the above calculations will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point, with five one millionths of a percentage point being rounded upwards (e.g., 9.876545% (or .09876545) being rounded to 9.87655% (or .0987655)) and all dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded upwards).

The interest rate on the Floating Rate Notes will in no event be higher than the maximum rate permitted by New York law as the same may be modified by United States law of general application.

The calculation agent will, upon the request of the Holder of any Floating Rate Note, provide the interest rate then in effect with respect to the Floating Rate Notes.



The Floating Rate Notes will be issued only in fully registered form, without coupons, in denominations of US\$2,000 of principal amount and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Floating Rate Notes, but FMG Finance may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All series of Senior Secured Notes will be treated as a single class for all purposes under the Indenture, except as described under “Redemption of the Senior Secured Notes—Optional Redemption” and “Amendment, Supplement and Waiver”.

### **Funding of Interest Payments During Construction Period**

As described in further detail below in “—Pre-Completion Account Flows—Fixed Rate DSR Account” and “—Pre-Completion Account Flows—Floating Rate DSR Account”, on the Issue Date, amounts sufficient to fund four semi-annual interest payments on the Fixed Rate Notes and eight quarterly interest payments on the Floating Rate Notes will be set aside in the Fixed Rate DSR Account and the Floating Rate DSR Account, respectively.

### **Guarantees**

Until Project Completion, Fortescue will unconditionally and irrevocably guarantee (the “Parent Guarantee”) the full and prompt payment of all amounts due under the Senior Secured Notes. Chichester, TPI and Pilbara Mining Alliance Pty Ltd (the “Project Guarantors”) will unconditionally and irrevocably guarantee (the “Project Guarantees”), on a joint and several basis, the full and prompt payment of all amounts due under the Senior Secured Notes.

### **Ranking**

The Senior Secured Notes will be senior secured obligations of FMG Finance, and will rank *pari passu* in right of payment with all existing and future senior Indebtedness of FMG Finance and will be senior in right of payment to all future subordinated Indebtedness of FMG Finance.

The Project Guarantees will be senior secured obligations of the Project Guarantors, ranking *pari passu* in right of payment with all existing and future senior Indebtedness of the Project Guarantors and will be senior in right of payment to all future subordinated Indebtedness of the Project Guarantors. Any subsidiary of a Project Guarantor created after the Issue Date will also become a Project Guarantor.

The Parent Guarantee will be a senior secured obligation of Fortescue and will rank *pari passu* in right of payment with all existing and future senior Indebtedness of Fortescue and will be senior in right of payment to all future subordinated Indebtedness of Fortescue.

### **De-leverage Cash Sweep Payments**

FMG Finance is required to make de-leverage cash sweep payments by one or more of the following means: (i) open market purchases of Senior Secured Notes, (ii) redemption of Senior Secured Notes at the optional redemption prices set forth herein, (iii) defeasance of the Senior Secured Notes as provided in the Indenture or (iv) the deposit of funds in US dollars in an account for the redemption of the Senior Secured Notes (the “De-leverage Cash Sweep Account”), which funds shall be held in cash or Cash Equivalents and shall be used for the redemption of Senior Secured Notes at the earliest optional redemption date and at the optional redemption price set forth herein. The obligation to make de-leverage cash sweep payments is subject to a cap of US\$400 million in aggregate payments made by any of the means described in (i) through (iv) above. Until de-leverage cash sweep payments in the aggregate amount of US\$200 million have been made, FMG Finance must make de-leverage cash sweep payments in an amount equal to 50% of all revenue from the Project, after making the payments required for taxes, operating expenditures, maintenance capital expenditures, interest on the Senior Secured Notes and principal on the Senior Secured Notes (the “Available Cash”), and to replenish any shortfalls in the Fixed Rate DSR Account, the Floating Rate DSR Account and the Lump Circuit Reserve Account (as described under the heading “—Pre-Completion Account Flows” described below). After de-leverage cash sweep payments in the aggregate amount of US\$200 million have been made, FMG Finance must continue making

de-leverage cash sweep payments in an amount equal to 25% of Available Cash until the cap of US\$400 million has been reached. Any amounts of Senior Secured Notes purchased or redeemed or funds deposited in the De-leverage Cash Sweep Account following the issuance or sale of shares of capital stock of International Bulk Ports Ltd. ("IBP") as described below under "De-leverage Obligations upon Disposition of IBP Equity" shall not count towards the US\$400 million cap of required de-leverage cash sweep payments.

Upon the earlier of six months following Project Completion or the time that all residual amounts due contractors, suppliers and other third parties for the construction and commissioning of the Project have been paid in full, any cash remaining in the Construction Account and Cost-Overrun Reserve Account shall be used in the manner and priority set forth under "—Accounts—Post Completion Account Flows—Construction and Cost Overrun Reserve Accounts", including towards satisfaction of FMG Finance's obligation to make up to US\$400 million in de-leverage cash sweep payments through one of the means described in (i) through (iv) above.

None of FMG Finance, Fortescue or any of the Project Guarantors may make any discretionary capital expenditures (which excludes capital expenditures included in the Project Construction Plan) with any amounts of Available Cash until all de-leverage cash sweep payments required to be made with respect to such Available Cash have been made. FMG Finance's obligation to make de-leverage cash sweep payments will terminate as of the date on which the Senior Secured Notes receive an Investment Grade Rating from at least two Credit Rating Agencies.

#### **Additional Amounts**

All payments of, or in respect of, principal of, and premium (if any) and interest in respect of the Senior Secured Notes, the Parent Guarantee or any Project Guarantee will be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any taxing authority within Australia, any other jurisdiction in which Fortescue or the relevant Project Guarantor is resident for tax purposes, or any other jurisdiction through which the payments are made (each a "Relevant Jurisdiction"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, FMG Finance, Fortescue or the relevant Project Guarantor, as the case may be, will pay such additional amounts ("Additional Amounts") that will result in receipt by the Holder of each Senior Secured Note, the Parent Guarantee or any Project Guarantee, as the case may be, of such amounts as would have been received by such Holder had no such withholding or deduction been required.

However, no Additional Amounts shall be payable on any payment under any Senior Secured Note, the Parent Guarantee or any Project Guarantee, as the case may be:

(a) for or on account of:

(i) any tax, duty, assessment or other governmental charge that would not have been imposed but for:

(A) the existence of any present or former connection between the Holder or beneficial owner of such Senior Secured Note, Parent Guarantee or Project Guarantee and the Relevant Jurisdiction other than merely holding such Senior Secured Note, Parent Guarantee or Project Guarantee, including such Holder or beneficial owner being or having been a national, domiciliary or resident of or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;

(B) the presentation of such Senior Secured Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder or beneficial owner thereof would have been entitled to such Additional Amounts if it had presented such Senior Secured Note for payment on any date within such 30 day period;

(C) the failure of the Holder or any other Person to comply with any certification, identification or other reporting requirement concerning nationality, residence, identity or connection with the Relevant Jurisdiction of the Holder or beneficial owner of such Senior Secured Note if compliance is required by law, regulation or by an applicable income tax treaty to which the Relevant Jurisdiction is a party, as a precondition to exemption for, or reduction in the rate of tax, assessment or other governmental charge;

(D) the failure of the Holder or beneficial owner of such Senior Secured Note to respond to a timely request of FMG Finance, Fortescue, or the relevant Project Guarantor, as the case may be, addressed to the Holder or beneficial owner to furnish information to FMG Finance, Fortescue or the relevant Project Guarantor, as the case may be, concerning such Holder's or beneficial owner's nationality, residence or identity, if and to the extent that furnishing such information to FMG Finance, Fortescue, or the relevant Project Guarantor, as the case may be, would have reduced or eliminated any taxes as to which Additional Amounts would have otherwise been payable to such Holder or beneficial owner, provided that for this purpose the Holder or beneficial owner shall be deemed to have furnished such information to FMG Finance, Fortescue, or the relevant Project Guarantor, as the case may be, upon facsimile transmission of such information to FMG Finance, Fortescue, or the relevant Project Guarantor, as the case may be; or

(E) the presentation of such Senior Secured Note for payment in the Relevant Jurisdiction, unless such Senior Secured Note could not have been presented for payment elsewhere;

(ii) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge; or

(iii) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (i) and (ii); or

(b) with respect to any payment of the principal of, or any premium, if any, or interest on, such Senior Secured Note, the Parent Guarantee or any payment under any Project Guarantee to such Holder who is a fiduciary, partnership or person other than the sole beneficial owner of such payment, to the extent that, if the sole beneficial owner had been the registered Holder of the note, such beneficial owner would not have been entitled to such Additional Amounts.

Whenever there is mentioned in any context the payment of principal, any premium or interest, in respect of any Senior Secured Note, the Parent Guarantee or Project Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

## **Redemption of the Senior Secured Notes**

### ***Optional Redemption***

#### ***Fixed Rate Notes***

Except as described below under “—Optional Tax Redemption”, FMG Finance will not be able to redeem the Fixed Rate Notes prior to . On or after , the Senior Secured Notes will be redeemable, at the option of FMG Finance, in whole or in part, at any time or from time to time, upon not less than 30 nor more than 60 days notice, at the following redemption prices (expressed as percentages of the principal amount), plus accrued and unpaid interest, if any, to the date of redemption (subject to the right of Holders of record on the relevant regular record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on of the years set out below:

**Redemption Year**

**Redemption Price**

If less than all of the Fixed Rate Notes are to be redeemed at any time, the Trustee will select Fixed Rate Notes for redemption on a pro rata basis, by lot or by such method as the Trustee deems fair and appropriate. No Fixed Rate Notes of US\$1,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each Holder of Fixed Rate Notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Fixed Rate Notes or a satisfaction and discharge of the Indenture. Notices of redemption may not be conditional. Fixed Rate Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on any Fixed Rate Notes called for redemption.

*Floating Rate Notes*

Except as set forth under “—Optional Tax Redemption”, FMG Finance may not redeem the Floating Rate Notes prior to . After this date, FMG Finance may redeem the Floating Rate Notes, in whole or in part, on not less than 30 nor more than 60 days’ prior notice, at the following redemption prices (expressed as percentages of the principal amount), plus accrued and unpaid interest thereon, if any, to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on of the years set forth below:

<u>Redemption Year</u>	<u>Redemption Price</u>
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If less than all of the Floating Rate Notes are to be redeemed at any time, the Trustee will select Floating Rate Notes for redemption on a pro rata basis, by lot or by such method as the Trustee deems fair and appropriate. No Floating Rate Notes of US\$1,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each Holder of Fixed Rate Notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Floating Rate Notes or a satisfaction and discharge of the Indenture. Notices of redemption may not be conditional. Floating Rate Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on any Floating Rate Notes called for redemption.

*Optional Tax Redemption*

The Senior Secured Notes may be redeemed, at the option of FMG Finance, in whole but not in part, at any time upon giving not less than 30 nor more than 60 days’ notice to the Holders (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date fixed by FMG Finance for redemption (the “Tax Redemption Date”) if, as a result of:

- (1) any change in, or amendment to, the laws or treaties (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction affecting taxation; or
- (2) any change in the existing official position regarding the application or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change, amendment, application or interpretation becomes effective on or after the Issue Date and Fortescue, FMG Finance or any Project Guarantor, as the case may be, is, or on the next interest payment date would be, required to pay any Additional Amounts with respect to any payment due or to become due under the Senior Secured Notes or the Indenture and such requirement cannot be avoided by the taking of reasonable measures by FMG Finance, Fortescue or a Project Guarantor, as determined by the relevant Board of Directors in good faith; provided that, with respect to Australian taxes, Fortescue or any Project Guarantor is required to pay Additional

Amounts to any Holder with respect to taxes imposed by a Relevant Jurisdiction at a rate greater than the rate FMG Finance, Fortescue or any Project Guarantor, as applicable, would have been required to pay to such Holder on the Issue Date of the Senior Secured Notes (if any payments were required to be paid on such date).

Notwithstanding the preceding paragraph, no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which FMG Finance, Fortescue or a Project Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Senior Secured Notes, the Parent Guarantee or the Project Guarantees were then due. Prior to the publication and mailing of any notice of redemption of the Senior Secured Notes pursuant to the foregoing, FMG Finance will deliver to the Trustee an opinion of an independent tax counsel of recognized standing to the effect that the circumstances referred to in clause (1) and (2) above exist.

Any Senior Secured Notes that are redeemed will be cancelled.

### **Offer to Purchase upon a Change of Control**

FMG Finance must commence, within 30 days of the occurrence of a Change of Control, an offer to purchase all Senior Secured Notes then outstanding, at a purchase price equal to 101% of their principal amount, plus accrued interest (if any) to, but not including, the date of purchase (the "Offer to Purchase").

There can be no assurance that FMG Finance will have sufficient funds available at the time of any Change of Control to make any repurchases of Senior Secured Notes required pursuant to the foregoing covenant (as well as any debt repayments or repurchases of other securities that may be required by the terms of any other securities or Indebtedness of FMG Finance which might be outstanding at the time).

The above covenant requiring FMG Finance to make an Offer to Purchase will, unless consents are obtained, require FMG Finance to repay all Indebtedness then outstanding which by its terms would prohibit such note repurchase, either prior to or concurrently with the consummation of such Offer to Purchase.

The Trustee shall act as the Paying Agent for an Offer to Purchase. FMG Finance will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder, to the extent such laws and regulations are applicable, in the event that FMG Finance is required to repurchase the Senior Secured Notes pursuant to an Offer to Purchase. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Indenture relating to an Offer to Purchase, FMG Finance will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under such provisions of the Indenture by virtue of such conflict.

### **De-leverage Obligations upon any Disposition of IBP Equity**

If, subject to the ownership covenant in the Indenture described below under "Selected Project Covenants under the Indenture —Ownership", Fortescue or IBP completes any issuance or sale of ordinary shares or other voting equity interests in IBP, then Fortescue or IBP, as the case may be, must upon completion of such equity issuance or sale, use the net proceeds from such equity issuance or sale to (i) make de-leverage cash sweep payments in the manner contemplated above under "De-leverage Cash Sweep Payments", (ii) prior to Project Completion, deposit the net proceeds from such equity issuance or sale into the Construction Account to use for construction costs for the Project, (iii) following Project Completion, deposit the net proceeds from such equity issuance or sale in the Lump Circuit Reserve Account to replenish or fund any shortfall, or (iv) in a combination of (i) through (iii) above.

## Accounts

FMG Finance and the Project Guarantors will maintain a series of cash accounts (the “Project Accounts”) with Citibank N.A., London as the Accounts Bank. The Project Accounts will be pledged to the Collateral Trustee for the benefit of the holders of the Senior Secured Notes. The following is a list of the Project Accounts through which the net proceeds of the Leucadia Placement, the issuance of the Senior Secured Notes, the proceeds of the Leucadia Subordinated Notes and the revenues of the Project will flow:

<u>Account</u>	<u>Currency</u>	<u>Location of Project Account</u>
Construction Account . . . . .	US\$	New York
Cost-Overrun Reserve Account . . . . .	A\$	Sydney
Fixed Rate DSR Account . . . . .	US\$	New York
Floating Rate DSR Account . . . . .	US\$	New York
Revenue Account . . . . .	US\$	New York
OPEX Account . . . . .	US\$	New York
OPEX Account . . . . .	A\$	Sydney
Lump Circuit Reserve Account . . . . .	A\$	Sydney
De-leverage Cash Sweep Account . . . . .	US\$	New York

## Funding of Accounts on the Issue Date

On the Issue Date, the net proceeds from the sale and issuance of the Senior Secured Notes will be used: (i) to fully fund the Fixed Rate DSR Account in an amount equal to the first four interest payments on the Fixed Rate Notes; (ii) to fully fund the Floating Rate DSR Account in an amount equal to the estimated first eight interest payments on the Floating Rate Notes; (iii) to fully fund the Cost-Overrun Reserve Account in the amount of A\$300 million; and (iv) to fund the Construction Account with the remaining net proceeds of the sale and issuance of the Senior Secured Notes.

On the Issue Date, the net proceeds received from the sale by Fortescue of 26,400,000 of its ordinary shares to Leucadia in the amount of US\$300 million and will be used: (i) to repay all of the outstanding principal and interest on the Bridge Loan and (ii) to fund the Construction Account with the remaining net proceeds.

On the Issue Date, the net proceeds from the issuance by Chichester to Leucadia of US\$100 million in aggregate principal amount of the Leucadia Subordinated Notes will be used to fund the Construction Account.

## Pre-Completion Account Flows

### *Construction Account*

Funds in the Construction Account will be used to fund the construction costs of the Project. FMG Finance and the Project Guarantors shall establish an Australian dollar sub-account to fund the Australian dollar construction costs of the Project. The Project Guarantors may make withdrawals from the Construction Account to fund construction costs of the Project then outstanding plus estimated construction costs for the next forty-five days by issuing a withdrawal notice to the Accounts Bank and Collateral Trustee no more frequently than once a month. The withdrawal notice will, among other things, specify the amount of the proposed withdrawal and the purpose of the proposed withdrawal, including details of the nature of the construction costs. The Independent Engineer will countersign the withdrawal notice to confirm that the construction costs relate to the construction of the Project and that the Project can satisfy the Cost to Complete Test. If the Independent Engineer does not countersign the withdrawal notice, it must provide notice (the “Non-Compliance Notice”) to the Trustee and FMG Finance that either (i) it does not agree that certain of the construction costs specified in the withdrawal notice are not costs associated with the Project, and/or (ii) the Cost to Complete Test has not been satisfied. If the Independent Engineer issues a Non-Compliance Notice, FMG Finance may still make a withdrawal from the Construction Account:

- (1) where the issuing of the Non-Compliance Notice relates solely to disputed construction costs, for any un-disputed construction costs specified in that withdrawal notice;

(2) where the issuing of the Non-Compliance Notice relates solely to the failure to satisfy the Cost to Complete Test, for construction costs up to a limit of A\$50,000,000; and

(3) where the issuing of the Non-Compliance Notice relates both to the failure to satisfy the Cost to Complete Test and to disputed construction costs, for un-disputed construction costs up to a limit of A\$50,000,000.

Where the Non-Compliance Notice has been issued due to a failure to satisfy the Cost to Complete Test, FMG Finance may not issue any further withdrawal notice unless at the time of issuing that withdrawal notice the Independent Expert certifies that the Cost to Complete Test is satisfied.

Pending disbursement, all funds contained in the Construction Account will be held as cash or invested in Cash Equivalents.

#### ***Cost-Overrun Reserve Account***

The Cost-Overrun Reserve Account will be funded to A\$300 million. Funds in the Cost-Overrun Reserve Account will principally be used to fund amounts, if any, in excess of the funds in the Construction Account needed to enable the Project to reach Project Completion. The Project Guarantors may only draw from the Cost-Overrun Reserve Account after the Construction Account has been fully drawn, provided, however, that FMG Finance may withdraw funds from the Cost-Overrun Reserve Account to pay interest on the Senior Secured Notes in the event that funds in either the Fixed Rate DSR Account or the Floating Rate DSR Account have been fully drawn and to replenish any shortfalls in the Fixed Rate DSR Account and Floating Rate DSR Account. After the Construction Account has been fully drawn, the Project Guarantors may make withdrawals from the Cost-Overrun Reserve Account to fund construction costs of the Project then outstanding. The Project Guarantors may make withdrawals from the Cost-Overrun Reserve Account by issuing a withdrawal notice to the Accounts Bank and the Collateral Trustee no more frequently than once a month. The withdrawal notice will, among other things, specify the amount of the proposed withdrawal and the cost-overrun to be funded by the withdrawal. The Independent Engineer will countersign the withdrawal notice to confirm that the cost-overrun has been incurred and that the Project can satisfy the Cost to Complete Test.

Pending disbursement, all funds contained in the Cost-Overrun Reserve Account will be held as cash or invested in Cash Equivalents.

#### ***Fixed Rate DSR Account***

The Fixed Rate DSR Account will be funded on the Issue Date with an amount sufficient to pay the first four interest payments on the Fixed Rate Notes. The Collateral Trustee will withdraw funds from the Fixed Rate DSR Account on each Interest Payment Date to pay the amount of interest then due and payable. At all times following the fourth Interest Payment Date on the Fixed Rate Notes, FMG Finance and the Project Guarantors will maintain an amount no less than the amount required to make the interest payment on the Fixed Rate Notes on the next succeeding Interest Payment Date. Pending disbursement, all funds contained in the Fixed Rate DSR Account will be invested in cash or Cash Equivalents. Amounts in the Fixed Rate DSR Account are required to be maintained in U.S. dollars.

#### ***Floating Rate DSR Account***

The Floating Rate DSR Account will be funded on the Issue Date with an amount sufficient to pay the estimated first eight interest payments on the Floating Rate Notes. The Collateral Trustee will withdraw funds from the Floating Rate DSR Account on each interest payment date to pay the amount of interest then due and payable. At all times following the eighth interest payment date on the Floating Rate Notes, FMG Finance and the Project Guarantors will maintain an amount no less than the amount estimated to be required to make the interest payments on the Floating Rate Notes on the next two succeeding interest payment dates. Pending disbursements, all fund contained in the Floating Rate DSR Account will be invested in cash or Cash Equivalents. Amounts in the Floating Rate DSR Account are required to be maintained in U.S. dollars.

## **Post Completion Account Flows**

### ***Construction Account and Cost-Overrun Reserve Account***

Upon the earlier of six months following Project Completion or the time that all residual amounts due contractors, suppliers and other third parties for the construction and commissioning of the Project have been paid in full, any remaining funds in the Construction Account and Cost-Overrun Reserve Account will be used, (i) first, to fund the OPEX Accounts with an amount sufficient to cover any outstanding incurred construction expenses, operating expenses or maintenance capital expenditure and the next 60 days of the Project's estimated operating expenses and maintenance capital expenditure; (ii) second, to pay any outstanding principal and interest on the Senior Secured Notes then due and payable; (iii) third, to fund any shortfall in the Fixed Rate DSR Account and the Floating Rate DSR Account; (iv) fourth to fund the Lump Circuit Reserve Account and (v) fifth, towards satisfaction of FMG Finance's obligation to make up to US\$400 million in de-leverage cash sweep payments. After all funds have been applied as described in (i) through (v) above, the remaining funds, if any, may be used to fund cash dividends, cash distributions, payments in respect of Shareholder Subordinated Indebtedness and interest payments on the Leucadia Subordinated Notes that may be made by FMG Finance or the Project Guarantors as provided in "Limitations on Restricted Payments" or to fund discretionary capital expenditure.

### ***Revenue Account***

All revenue received by the Project Guarantors from the Project, including sales proceeds under the Off-take Agreements, together with all interest income from all other Collateral Accounts, shall be deposited in the Revenue Account. Amounts in the Revenue Account shall be applied to amounts owing in the following categories, if any, on the date of application of the funds:

- (i) first, to pay taxes payable by FMG Finance or the Project Guarantors;
- (ii) second, to fund the US\$ OPEX Account and the A\$ OPEX Account with amounts sufficient to cover the succeeding 60 days of operating expenses and maintenance capital expenditures under the Master Control Budget;
- (iii) third, to pay outstanding interest on the Senior Secured Notes;
- (iv) fourth, to pay outstanding principal on the Senior Secured Notes;
- (v) fifth, to replenish the Fixed Rate DSR Account and the Floating Rate DSR Account when either such account is not fully funded;
- (vi) sixth, to fund the Lump Circuit Reserve Account;
- (vii) seventh, to make de-leverage cash sweep payments; and
- (viii) eighth, to fund cash dividends, cash distributions, payments in respect of Shareholder Subordinated Indebtedness, and interest payments on the Leucadia Subordinated Notes that may be made by FMG Finance or the Project Guarantors as provided in "Limitation on Restricted Payments" or to pay discretionary capital expenditure.

### ***OPEX Accounts***

The OPEX Accounts will be funded in Australian or U.S. dollars, in the aggregate, in the amount to be expended during the immediately following 60 days by FMG Finance and the Project Guarantors for operating lease payments, other operating expenditures and maintenance capital expenditures for the Project, as estimated in accordance with the Master Control Budget, as it may be amended from time to time, as described in the monthly construction reports provided to the Trustee and the Independent Engineer as described in "Selected Project Covenants—Construction Reports".



### ***Fixed Rate DSR Account***

At all times following the fourth interest payment date on the Fixed Rate Notes, the Fixed Rate DSR Account shall be funded in an amount not less than the amount required to make the next interest payment on the Fixed Rate Notes on the next succeeding interest payment date for the Fixed Rate Notes. Pending disbursement, all funds contained in the Fixed Rate DSR Account will be held as cash or invested in Cash Equivalents. Amounts in the Fixed Rate DSR Account will be required to be maintained in US dollars. The obligation of FMG Finance and the Project Guarantors to maintain the Fixed Rate DSR Account will terminate as of the date on which the Fixed Rate Notes receive an Investment Grade Rating from at least two Credit Rating Agencies.

### ***Floating Rate DSR Amount***

At all times following the eighth interest payment date on the Floating Rate Notes, the Floating Rate DSR Amount shall be funded in an amount not less than the amount estimated to be required to make the next two interest payments on the Floating Rate Notes on the next two succeeding interest payment dates for the Floating Rate Notes. Pending disbursement, all funds contained in the Floating Rate DSR Account will be held as cash or invested in Cash Equivalents. Amounts in the Floating Rate DSR Account will be required to be maintained in U.S. dollars. The obligation of FMG Finance and the Project Guarantors to maintain the Floating Rate DSR Account will terminate as of the date on which the Floating Rate Notes receive an Investment Grade Rating from at least two Credit Rating Agencies.

### ***Lump Circuit Reserve Account***

The Lump Circuit Reserve Account will be funded in Australian dollars in the amount of A\$235 million, less any amount already spent on the Lump Circuit, for the purpose of making capital expenditures with respect to the Lump Circuit for the Project. The Lump Circuit Reserve Account will be funded with any funds remaining in the Construction Account and the Cost-Overrun Reserve Account in the manner set forth above under “—Post Completion Account Flows—Construction and Cost Overrun Reserve Account” and from revenues after application through the cash waterfall set forth above under “—Revenue Account”. If the amounts remaining in the Construction Account and Cost-Overrun Reserve Account following Project Completion and application as described under “—Construction Account and Cost-Overrun Reserve Account” above is not sufficient to satisfy the obligation of FMG Finance and the Project Guarantors to fund the Lump Circuit Reserve Account as described above, FMG Finance and the Project Guarantors shall be obligated to fund the Lump Circuit Reserve Account through application of the cash available in the Revenue Account after application of funds in priority order as described above.

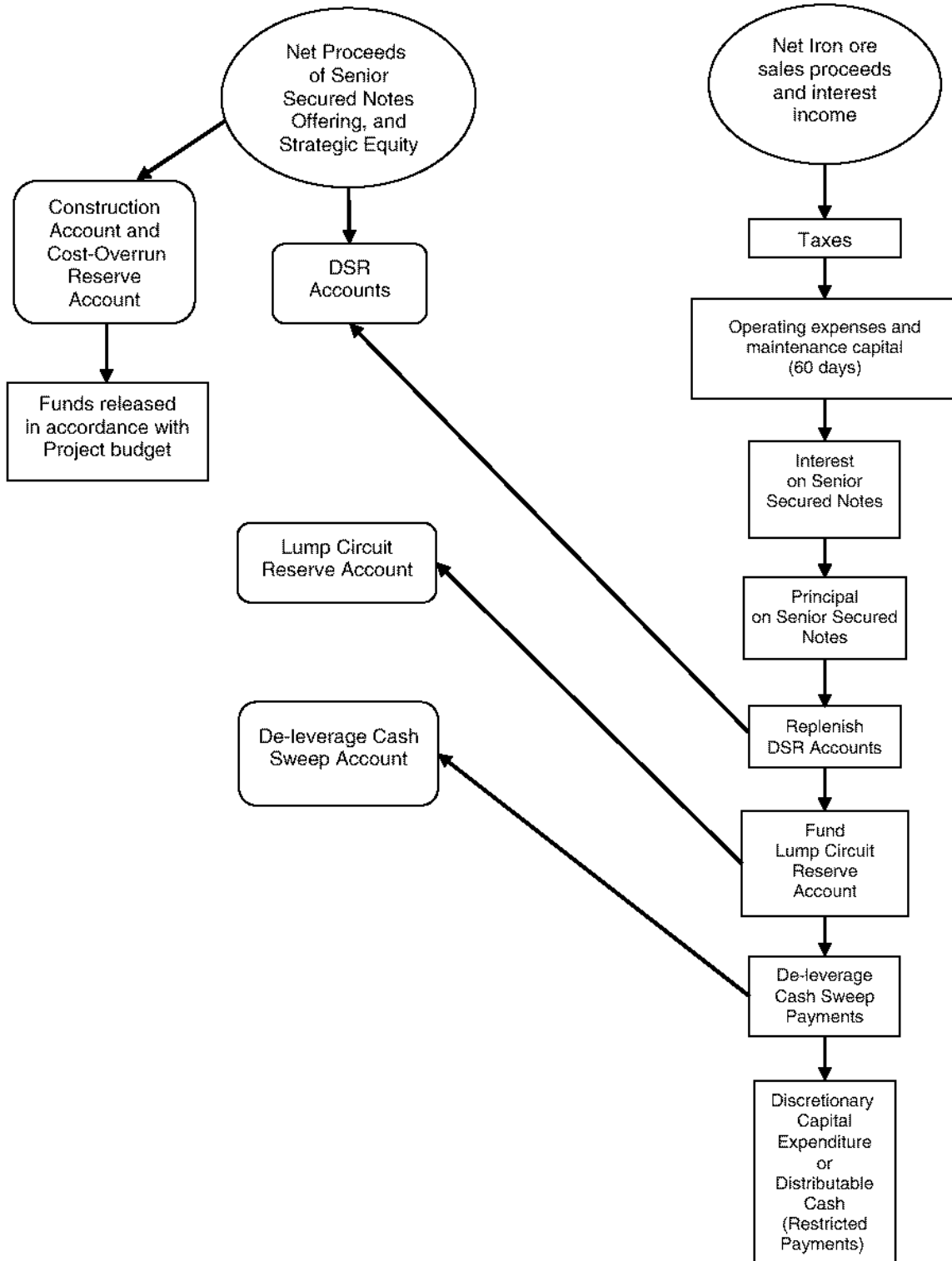
### ***De-leverage Cash Sweep Account***

The De-leverage Cash Sweep Account may be funded from time to time in satisfaction of the obligation of FMG Finance and the Project Guarantors to make de-leverage cash sweep payments.

### ***Discretionary Capital Expenditures and Restricted Payments***

Any remaining funds after application through the cash waterfall described above may be used by the Project Guarantors to fund discretionary capital expenditures for the Project or, if the conditions set forth below under “—Limitation on Restricted Payments” have been satisfied in full, to fund cash dividends, cash distributions, payments in respect of Shareholder Subordinated Indebtedness and interest payments on the Leucadia Subordinated Notes.

**Illustration of Accounts/Payments Flow**



## Security

The obligations of FMG Finance under the Indenture, Fortescue under the Parent Guarantee and the Project Guarantors under the Project Guarantees will be secured by:

- first-ranking fixed and floating charges over all present and future assets of FMG Finance and each Project Guarantor, except (1) in the case of Chichester, any tenements not related to the Project and (2) in the case of Chichester, PMA and TPI, the credit balance of certain bank accounts established as cash collateral for the issuance of performance bonds or bank guarantees in relation to the Project Guarantor's obligations under legislation, regulations or contracts entered into in relation to the Project;
- first-ranking share mortgages over all of the shares in the capital of Chichester, TPI, FMG Finance, PMA and any newly created subsidiaries of any of them;
- first-ranking charges over each of the Project Accounts and all cash and investments on deposit in the Project Accounts;
- first-ranking fixed charges over the Project Group's interests in the Infrastructure State Agreement and the Mining State Agreement;
- first-ranking fixed charge over Fortescue's interest in the Offtake Agreements and Shareholder Subordinated Indebtedness;
- first-ranking mining mortgage over the mining tenements owned by Chichester that are related to the Project which are listed in Appendix C hereto;
- first-ranking mortgages of real property leasehold rights of the Project Group, when those leasehold rights have been granted, including the Port Lease;
- "featherweight charge" over all of the assets and undertakings of Fortescue (other than the assets of Fortescue which are subject to the share mortgages or fixed charge referred to above); and
- "featherweight charge" over all of the assets of FMG Pilbara Pty Ltd, Chichester and IBP (other than the assets of FMG Pilbara Pty Ltd, Chichester and IBP which are subject to any of the charges or share mortgages referred to above;

(collectively, the "Collateral").

There can be no assurance that the proceeds of any sale of the Collateral following an Event of Default would be sufficient to satisfy payments due on the Senior Secured Notes. See "Risk Factors—Certain limitations on remedies and other claims with priority over claims of holders of Senior Secured Notes could adversely affect the rights as a security holder in insolvency proceedings." and "—The Project Group cannot assure you that the proceeds from the sale of the Collateral securing the Senior Secured Notes would be sufficient to satisfy the amounts due on the Senior Secured Notes in the event of a default."

For additional information regarding the Collateral and enforcement procedures under Australian law, see "Description of the Collateral" and "Enforcement of Liens".

## Selected Covenants under the Indenture

### *Limitation on Indebtedness*

Neither FMG Finance nor any Project Guarantors shall Incur any Indebtedness after the Issue Date; *provided, however*, that any of FMG Finance and the Project Guarantors may incur Indebtedness if, on the date thereof and after giving effect thereto, the Consolidated Coverage Ratio would be greater than 2.75 to 1.

Notwithstanding the limitation on Indebtedness described in the foregoing paragraph, any of FMG Finance and the Project Guarantors may Incur on or after the Issue Date the following Indebtedness:

- (i) Indebtedness represented by Capitalized Lease Obligations, or purchase money obligations, in each case Incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvement of Project assets or Incurred to refinance any such purchase price or cost of construction,

installation or improvement, in each case Incurred no later than 90 days after the date of such acquisition or the date of completion of such construction or improvement; *provided, however*, that the principal amount of any Indebtedness Incurred after the Issue Date pursuant to this clause (i) (not including pursuant to Existing Arrangements) shall not exceed US\$100 million at any time outstanding;

(ii) Indebtedness represented by Operating Lease Obligations;

(iii) Indebtedness represented by the Senior Secured Notes, the Leucadia Subordinated Notes and the guarantees thereof;

(iv) any Refinancing Indebtedness;

(v) Indebtedness (A) in respect of performance bonds, letters of credit, bankers' acceptances and surety or appeal bonds or deposits provided by or on behalf of any of FMG Finance and the Project Guarantors in the ordinary course of business; (B) in respect of performance bonds, bank guarantees or similar obligations of or issued on behalf of any of FMG Finance and the Project Guarantors for or in connection with pledges, deposits or payments made or given in relation to such performance bonds, bank guarantees or similar instruments in the ordinary course of business in connection with or to secure statutory, regulatory or similar obligations, including obligations under mining, health, safety or environmental obligations or in relation to infrastructure arrangements owned, provided to or applied for by FMG Finance or a Project Guarantor and (C) arising from guarantees to suppliers, lessors, licensees, contractors, franchises or customers of obligations (other than Indebtedness) incurred in the ordinary course of business;

(vi) Indebtedness of FMG Finance owing to any Project Guarantor and Indebtedness of any Project Guarantor owing to FMG Finance or to any other Project Guarantor, *provided* that any such Indebtedness is subordinate to the Senior Secured Notes;

(vii) Indebtedness arising under a bank working capital facility not in excess of US\$50 million, *provided* that no Indebtedness shall be drawn under such a facility until after Project Completion; and

(viii) Indebtedness Incurred (in addition to Indebtedness permitted by clauses (i) through (viii) above) in an aggregate principal amount that, when taken together with all other Indebtedness Incurred by FMG Finance and the Project Guarantors pursuant to this clause (ix), does not exceed at any time US\$25 million.

For purposes of determining compliance with this "Limitation on Indebtedness" covenant, solely to avoid duplication in the event that an item of Indebtedness meets the criteria of more than one of the categories of Indebtedness described above, FMG Finance shall, in its sole discretion, classify at the time of Incurrence, and may from time to time reclassify, that item of Indebtedness and shall only be required to include the amount of that Indebtedness in one of the above categories of Indebtedness.

#### ***Limitation on Restricted Payments***

Each of FMG Finance and Project Guarantors shall not, directly or indirectly:

(i) declare or pay any dividend or make any distribution on or in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving FMG Finance or any Project Guarantor) except dividends or distributions payable in its Capital Stock (other than Disqualified Capital Stock) or in options, warrants or other rights to purchase Capital Stock;

(ii) purchase, redeem, or otherwise acquire or retire for value any Capital Stock of Fortescue or any Subsidiary of Fortescue that is not FMG Finance or a Project Guarantor;

(iii) make any payments of principal or interest on or purchase, defease, repurchase, redeem or otherwise acquire or retire for value, any Shareholder Subordinated Indebtedness owned by Fortescue or any Non-Project Subsidiary;

(iv) make any principal payment on or purchase, defease, repurchase, redeem or otherwise acquire or retire for value, in each case prior to any scheduled maturity, scheduled repayment, scheduled sinking fund

payment or other stated maturity, any Subordinated Obligation (other than the purchase, repurchase or other acquisition of Subordinated Obligation purchased in anticipation of satisfying a scheduled maturity, sinking fund or amortization or other installment obligation, in each case due within one year of the date of acquisition); or

(v) make any Investment (other than a Permitted Investment),

(any such dividend, distribution, purchase, redemption, repurchase, other acquisition, or Investment as described in preceding clauses (i) through (v) being referred to as a "Restricted Payment"); *provided*, that FMG Finance and the Project Guarantors may make Restricted Payments (a) set forth in (i) through (iii) above no more frequently than semi-annually (and then only after the combined financial statements of the Project Guarantors and FMG Finance for the last semi-annual period then ended have been delivered to the Trustee) and (b) set forth in (iv) and (v) at any time to the extent that at the time of the making of any such Restricted Payment and after giving effect thereto:

- (1) no Default or Event of Default has occurred and is continuing;
- (2) Project Completion has occurred;
- (3) both the Fixed Rate DSR Account and Floating Rate DSR Account are fully funded;
- (4) the Lump Circuit Reserve Account is fully funded;
- (5) the OPEX Accounts are fully funded for the succeeding 60 days of estimated operating expenses and maintenance capital expenditure;
- (6) all de-leverage cash sweep payments required to have been made as of the date of the proposed Restricted Payment have been made; and
- (7) FMG Finance and the Project Guarantors would at the time of the proposed Restricted Payment be able to incur at least US\$1.00 of Indebtedness under the Consolidated Coverage Ratio test described in the first paragraph under "—Limitation on Indebtedness" above.

The amount of all Restricted Payments, other than cash, shall be the Fair Market Value on the date of such Restricted Payment, of the asset(s) or securities proposed to be paid, transferred or issued by FMG Finance or the Project Guarantor, as the case may be, pursuant to such Restricted Payment. The Fair Market Value of any non-cash Restricted Payment shall be determined conclusively by the board of directors of FMG Finance or the Project Guarantor, as the case may be, acting in good faith.

#### ***Limitation on Restrictions on Distributions***

Each of FMG Finance and the Project Guarantors shall not create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any subsidiaries of FMG Finance or any Project Guarantor to:

- (i) pay dividends or make any other distributions on its Capital Stock or pay any Indebtedness or other obligation owed to FMG Finance or any Project Guarantor;
- (ii) make any loans or advances to FMG Finance or any Project Guarantor; or
- (iii) transfer any of its property or assets to FMG Finance or any Project Guarantor; except (in each case) for such encumbrances or restrictions existing under or by reason of:
  - (A) any encumbrance or restriction pursuant to an agreement in effect at or entered into on the Issue Date (or any agreement replacing any of the foregoing to the extent any such encumbrance or restriction contained therein is no more restrictive than in the agreement being replaced);
  - (B) in the case of clause (iii), any encumbrance or restriction:

- (1) contained in a Project Document;

(2) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is a lease, license, conveyance or contract or similar property or asset;

(3) by virtue of any transfer of, agreement to transfer, option or right with respect to, or Lien on, any property or assets of FMG Finance or any Project Guarantor not otherwise prohibited by the Indenture;

(4) that is included in a licensing agreement to the extent such restrictions limit the transfer of the property subject to such licensing agreement;

(5) included in any Security Document or pursuant to any Permitted Lien; or

(6) arising or agreed to in the ordinary course of business and that does not, individually or in the aggregate, detract from the value of property or assets of FMG Finance or any Project Guarantor in any manner material to FMG Finance or any such Project Guarantor; and

(C) encumbrances or restrictions arising or existing by reason of applicable law, rule, regulation, order, license permit or similar restriction.

#### ***Limitation on Indebtedness with Fortescue or Non-Project Subsidiaries***

Neither FMG Finance nor any of the Project Guarantors shall Incur any Indebtedness with Fortescue or any of the Non-Project Subsidiaries unless such Indebtedness (i) is by its terms expressly subordinate or junior in ranking in all respects to the Senior Secured Notes, (ii) is not be secured Indebtedness unless contemporaneously therewith effective provision is made to secure the Senior Secured Notes equally and ratably, (iii) does not have any default provisions or acceleration rights, (iv) is not permitted to be repaid so long as the Senior Secured Notes are outstanding, and (v) may only pay interest if and to the extent that the Project Guarantors may make Restricted Payments under the “Limitations on Restricted Payments” covenant.

#### ***Limitation on Affiliate Transactions***

Neither FMG Finance nor any Project Guarantor will, directly or indirectly, enter into or conduct any transaction or series of related transactions (including the purchase, sale, lease or exchange of any property or the rendering of any service) with or for the benefit of any Affiliate of FMG Finance or a Project Guarantor (an “Affiliate Transaction”) unless:

(i) the terms of such Affiliate Transaction are no less favorable to FMG Finance or such Project Guarantor than those that could be obtained at the time of such transaction in arm’s length dealings with a Person who is not an Affiliate;

(ii) in the event such Affiliate Transaction involves an aggregate amount in excess of US\$5 million, the terms of such transaction have been approved by a majority of the members of the Board of Directors of such Person and by a majority of the disinterested members of such Board of Directors, if any (and such majority or majorities, as the case may be, determines that such Affiliate Transaction satisfies the criteria in (i) above, which determination is evidenced by a resolution of the Board of Directors); and

(iii) in the event such Affiliate Transaction involves an aggregate amount in excess of US\$10 million, such Person has received a written opinion from an independent investment banking firm or other similar expert of nationally recognized standing that such Affiliate Transaction:

(A) is fair to FMG Finance or such Project Guarantor from a financial point of view; or

(B) complies with the requirements of clause (i) above.

The following items will not be Affiliate Transactions and, therefore, the foregoing paragraph shall not apply to:

(i) any Restricted Payment permitted to be made pursuant to the covenant described under “Limitation on Restricted Payments”;

(ii) loans or advances to employees in the ordinary course of business of FMG Finance and/or any Project Guarantor in aggregate amount outstanding not to exceed US\$2 million at any time;

(iii) any transaction between and/or among FMG Finance and the Project Guarantors, or any of them so long as such entities are directly or indirectly wholly owned by Fortescue;

(iv) indemnification agreements with, and the payment of fees and indemnities to, directors, officers, consultants and employees of FMG Finance or any Project Guarantor, in each case in the ordinary course of business;

(v) transactions pursuant to agreements in existence on the Issue Date that, in the aggregate, are immaterial to each of FMG Finance and the Project Guarantors;

(vi) any employment, non-competition or confidentiality agreements entered into with its employees in the ordinary course of business;

(vii) Shareholder Subordinated Indebtedness;

(viii) the Leucadia Subordinated Notes;

(ix) the issuance of Capital Stock of FMG Finance or any Project Guarantor to Fortescue or any Project Guarantor; and

(x) as to the requirement for a written opinion from an independent investment banking firm, the Services Agreement.

#### ***Limitation on Liens***

Neither FMG Finance nor any Project Guarantor may directly or indirectly create, incur, assume or suffer to exist any Liens on any assets that they own except for Permitted Liens.

#### ***Sale/Leaseback***

Neither FMG Finance nor any of the Project Guarantors will enter into any Sale and Leaseback Transaction involving any of its assets or properties whether now owned or hereafter acquired; *provided, however*, that FMG Finance or any Project Guarantor may enter into a Sale and Leaseback Transaction if:

(1) the consideration received in such Sale and Leaseback Transaction is at least equal to the Fair Market Value of the property or asset so sold or otherwise transferred;

(2) Either (A) FMG Finance or such Project Guarantor, as applicable, would be permitted to grant a Lien to secure Indebtedness under the "Limitation on Liens" covenant in the amount of the Attributable Indebtedness in respect of such Sale and Leaseback Transaction or (B) such Sale and Leaseback Transaction related to an Operating Lease Obligation;

(3) prior to and after giving effect to the Attributable Indebtedness in respect of such Sale and Leaseback Transaction, FMG Finance and the Project Guarantors comply with the "Limitation on Indebtedness" covenant; and

(4) FMG Finance or such Project Guarantor applied the proceeds received from such sale in accordance with the "Limitation on Asset Sales" covenant.

#### ***Limitation on Asset Sales***

Each of FMG Finance and the Project Guarantors shall not make any Asset Disposition unless:

(i) FMG Finance or such Project Guarantor receives consideration at the time of such Asset Disposition at least equal to Fair Market Value of the shares and assets subject to such Asset Disposition;

(ii) at least 75% of the consideration thereof received by FMG Finance or such Project Guarantor is in the form of cash or Cash Equivalents; and

(iii) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied (at the election of FMG Finance or the applicable Project Guarantor), (1) to the investment in or acquisition of Additional Assets within 365 days from the later of the date of such Asset Disposition or the receipt of such

Net Available Cash, (2) to the purchase (including by means of open-market purchases or permitted optional redemption) of Senior Secured Notes or (3) to the permanent repayment of other senior Indebtedness of FMG Finance or the Project Guarantors that ranks prior to or *pari passu* with the Senior Secured Notes.

Any amounts of Net Available Cash from such Asset Disposition not applied in the manner described in (iii) above within 365 days after the receipt of the Net Available Cash shall constitute "Excess Proceeds". Excess Proceeds of less than US\$20 million will be carried forward and accumulated. Within 10 business days of the date on which the aggregate amount of Excess Proceeds exceeds US\$20 million, FMG Finance or a Project Guarantor must make a mandatory offer to purchase the maximum principal amount of Senior Secured Notes at 101% of their principal amount plus accrued and unpaid interest, if any, thereon that may be purchased with the Excess Proceeds, *pro rata* among the Senior Secured Notes.

For the purposes of this covenant, the following will be deemed to be cash:

(x) the assumption by the transferee of senior Indebtedness that ranks prior to or *pari passu* with the Senior Secured Notes of FMG Finance or applicable Project Guarantor and the release of FMG Finance or applicable Project Guarantor from all liability on such senior indebtedness in connection with such Asset Disposition; and

(y) securities, notes or other obligations received by FMG Finance or any Project Guarantor from the transferee that are promptly (and in any event within 60 days) converted by FMG Finance or such Project Guarantor into cash.

#### ***Merger and Consolidation***

Neither FMG Finance nor any Project Guarantor shall consolidate with or merge with or into, or convey, transfer or lease all or substantially all of its assets to any Person except that FMG Finance or any Project Guarantor may take any such action if:

(i) the resulting, surviving or transferee Person (the "Successor Company") shall be a corporation, partnership, trust or limited liability company organized and existing under the laws of Australia or any State thereof and the Successor Company (if not FMG Finance or one of the Project Guarantors) shall expressly assume, by supplemental indenture, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of FMG Finance or the Project Guarantors, as the case may be, under the Indenture, the Project Guarantees and the Senior Secured Notes;

(ii) immediately after giving effect to such transaction (and treating any Indebtedness that becomes an obligation of the Successor Company or any Subsidiary of that Successor Company as a result of such transaction as having been incurred by the Successor Company or such Subsidiary at the time of such Transaction), no Default or Event of Default shall have occurred and be continuing and no default under the Transaction Documents shall result therefrom;

(iii) immediately after giving effect to such transaction, the Successor Company would be able to incur at least an additional US\$1.00 of Indebtedness under the Consolidated Coverage Ratio test described in the first paragraph under "—Limitation on Indebtedness" above;

(iv) the Consolidated Net Worth of the Successor Company is not less than the Consolidated Net Worth of FMG Finance or such Project Guarantor, as applicable, immediately prior to the transaction;

(v) after giving effect thereto, all the Capital Stock of the Successor Company shall be owned, directly or indirectly, by Fortescue;

(vi) there has been delivered to the Trustee an opinion of counsel to the effect that Holders of the Senior Secured Notes will not recognize income, gain or loss for U.S. federal income tax or Australian tax purposes as a result of such merger, consolidation, conveyance, transfer or lease and will be subject to U.S. federal income tax and Australian tax on the same amount and in the same manner and at the same times as would have been the case if such merger, consolidation, conveyance, transfer or lease had not occurred; and



(vii) FMG Finance or such Project Guarantor shall have delivered to the Trustee an officers' certificate of a Responsible Officer and an opinion of counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with the Indenture.

The Successor Company will succeed to, and be substituted for, and may exercise every right and power of, FMG Finance or such Project Guarantor under the Indenture, but, in the case of a lease of all or substantially all its assets, FMG Finance or such Project Guarantor will not be released from its obligations under the Indenture.

### ***Hedging***

Neither FMG Finance nor any Project Guarantor shall enter into any hedging arrangements, other than Permitted Hedging Arrangements that are limited to an amount that can be incurred under the Limitation on Indebtedness covenant described above.

### **Selected Project Covenants**

#### ***Maintenance of Existence***

Each of FMG Finance and the Project Guarantors shall, and Fortescue shall cause each of them to, do all things necessary to maintain: (i) its corporate existence in its jurisdiction of organization and (ii) the power and authority (corporate and otherwise) necessary under the laws of Australia to own its properties and to carry on the business of the Project. Each of FMG Finance and the Project Guarantors shall not, and Fortescue shall cause each of them not to, dissolve, liquidate, and shall not take any action to amend or modify its corporate constituent or governing documents where such amendment would be prejudicial to the Holders of the Senior Secured Notes.

#### ***Ownership***

Except as provided below with respect to TPI, Fortescue will at all times own, directly or indirectly, 100% of the capital stock of Chichester, FMG Finance, PMA and TPI. Neither FMG Finance nor any of the Project Guarantors will, and Fortescue will not permit either FMG Finance or any of the Project Guarantors to issue, sell, transfer or dispose of any Capital Stock of FMG Finance or any Project Guarantor, other than to Fortescue, FMG Pilbara, FMG Finance or one of the Project Guarantors.

IBP is a direct wholly-owned subsidiary of Fortescue that holds, as of the Issue Date, 100% of the issued and outstanding ordinary shares of TPI. Fortescue may sell and IBP may issue and sell, shares of Capital Stock of IBP, provided that:

- (1) as of the date of the proposed sale and after giving effect to such sale, no Default or Event of Default has occurred and is continuing;
- (2) no downgrade of the rating of the Senior Secured Notes would occur as a result of any such sale;
- (3) an arm's-length service agreement is in place between Chichester and TPI, pursuant to which TPI agrees to give preferential treatment to the transport of the iron ore mined by the Project on the Railway and Port Facility to the maximum extent permitted under the Infrastructure State Agreement;
- (4) an arm's-length intercompany note is signed between FMG Finance and TPI;
- (5) Fortescue retains at all times operational control of TPI, and, prior to Project Completion, directly or indirectly, more than 50.1% of the voting and economic interests in the outstanding capital stock of TPI; and
- (6) all the net proceeds from such sale are used to make de-leverage cash sweep payments in the manner described above or, if prior to Project Completion, deposited in the Construction Account to be used to fund Project construction costs.

### ***Business***

Prior to Project Completion, the Project Guarantors shall conduct no business or activity other than (1) the development and operation of the Project as described and contemplated in the Offering Memorandum, (2) licensing the use of railway and port facilities to third parties and (3) activities reasonably incidental to (1) and (2). Following Project Completion, the Project Guarantors may engage in additional businesses as described below under “—Permitted Expansions”. FMG Finance shall not have any assets other than proceeds from the issuance of the Senior Secured Notes, intercompany notes from TPI and Chichester, its rights under the Transaction Documents to which it is a party and other incidental assets and shall not conduct any business other than as necessary to perform its respective obligations under such Transaction Documents to which it is a party.

### ***Permitted Expansions***

Following Project Completion, provided that any such expansion would not result in a downgrade of the rating of the Senior Secured Notes below the rating of the Senior Secured Notes on the Issue Date, in addition to the businesses described in “—Business” above, the Project Guarantors may engage in exploration, feasibility studies and development and production of other iron ore resources and related business activities in the Pilbara region of Western Australia; *provided that* (1) the additional exploration, development and production activities are funded out of equity contributions, unsecured indebtedness that may be incurred under the covenant described above under “—Limitation on Indebtedness” or by excess revenue from the Project, following application as described under “Accounts” above and after making all necessary de-leverage cash sweep and other payments described above, (2) the security interests over all of the assets and undertakings of FMG Finance and each Project Guarantor securing the obligations of FMG Finance and the Project Guarantors under the Senior Secured Notes described under “Security” above will be extended to apply to any assets of the Project Guarantors acquired, developed or created by the Project Guarantors in connection with such exploration, feasibility, development and production activities and (3) the Project Guarantors will have provided to the Trustee an officer’s certificate of a Responsible Officer certifying that such expansion will not have a material adverse effect on the ability of FMG Finance and the Project Guarantors to satisfy their obligations under the Senior Secured Notes and the Project Guarantees.

### ***Principal Place of Business***

Each of FMG Finance and the Project Guarantors shall maintain its headquarters and principal place of business in Western Australia and shall maintain in such place originals or copies of the principal books and records relating to its business.

### ***Accounting and Cost Control Systems***

The Project Guarantors shall maintain, or cause to be maintained, its own management information and cost accounting systems for the Project at all times in accordance with prudent industry practice. FMG Finance and the Project Guarantors must ensure that the financial statements and reports furnished under the Indenture are prepared in accordance with the requirements in Chapter 2M of the Australian Corporations Act and the applicable accounting standards.

### ***Access***

Each of FMG Finance and the Project Guarantors shall grant the Collateral Trustee and the Independent Engineer or their designees from time to time, including but not limited to during the pendency of a Default or an Event of Default, reasonable access to all of its books and records, quality control and performance test data, all other data relating to the Project and construction progress and the physical facilities of the Project and an opportunity to discuss accounting matters with Fortescue’s independent auditors, provided that all such inspections are conducted during normal business hours in a manner that does not unreasonably disrupt the construction or operation of the Project. Each of the Collateral Trustee and the Independent Engineer shall

also have the right to monitor, witness and appraise the construction, testing and operation of the Project. So long as a Default or any Event of Default has occurred and is continuing, the reasonable fees and documented expenses of such persons shall be for the account of FMG Finance and the Project Guarantors.

#### ***Environmental Audits***

If the Collateral Trustee or the Independent Engineer reasonably believes that a violation or threat of violation of any environmental law may have occurred, or if a Default or an Event of Default has occurred, the Project Guarantors shall, upon receipt of a written communication setting forth the basis for such belief, grant access to and assist any environmental consultants for the purpose of conducting any environmental compliance audits requested by either the Collateral Trustee or the Independent Engineer in its reasonable discretion and all reasonable costs associated with any such audits shall be paid by FMG Finance and the Project Guarantors.

#### ***Preservation of Assets***

Each of FMG Finance and the Project Guarantors shall maintain its assets in good repair and shall make such repairs and replacements as are required in accordance with prudent industry practice.

#### ***Insurance***

The Project Guarantors will keep the Project property of an insurable nature and of a character usually insured, insured with financially sound insurers with all risk property and general liability coverage (including deductibles and exclusions) and in such form and amounts as are customary for project facilities of similar type and scale to the Project (including, prior to Project Completion, delay in start-up coverage and, after Project Completion, business interruption and contingent business interruption insurance). The Project Guarantors will cause with limited exceptions, each insurance policy to name the Collateral Trustee on behalf of the secured parties and the secured parties as additional insureds and sole loss payees as their interest may appear.

#### ***Taxes***

Each of FMG Finance and the Project Guarantors shall (i) file or cause to be filed all tax returns required to be filed by it, and (ii) pay and discharge, before the same shall become delinquent, after giving effect to any applicable extensions, all taxes imposed on it or its property (including interest and penalties) unless such taxes are being contested in good faith and by appropriate proceedings, appropriate reserves are maintained with respect thereto in accordance with AIFRS and such proceedings, if adversely determined, could not reasonably be expected to have a Material Adverse Effect. Each of FMG Finance and the Project Guarantors shall promptly notify the Collateral Trustee, in reasonable detail, of any disputes pending between it and any governmental authority relating to taxes.

#### ***Compliance with Law***

Each of FMG Finance and the Project Guarantors shall (i) comply, and use its reasonable best efforts to cause its contractors to comply, with all applicable laws, rules, regulations and orders of governmental authorities (including without limitation environmental, health and safety, mining, port and railway and native title laws), except where such failure to comply could not reasonably be expected to have a Material Adverse Effect and (ii) notify the Collateral Trustee promptly following the initiation of any proceedings or material disputes between it or any of its contractors with any governmental authority or other parties relating to compliance or noncompliance with any such law, rule, regulation or order.

#### ***Safety Precautions***

The Project Guarantors shall implement and administer safety, health and environmental procedures for the Project consistent with all applicable environmental, health and safety laws, rules, regulations and orders, including with respect to all contractors and subcontractors, except where the failure to so implement and administer could not reasonably be expected to have a Material Adverse Effect.

### ***Maintenance of Approvals for Transaction Documents***

Each of FMG Finance and the Project Guarantors shall maintain or cause to be maintained all third-party authorizations that are necessary for (i) the execution, delivery and performance by it of each Transaction Document to which it is a party and (ii) the incurrence and guarantee of the Senior Secured Notes, as the case may be, in good standing, in full force and effect, not subject to appeal and free from conditions or requirements, except to the extent that such conditions or requirements have either already been satisfied or will be satisfied, in the ordinary course, without violation or default thereunder.

### ***Maintenance of Approvals for Mining Project and Infrastructure Project***

Each of the Project Guarantors shall maintain, and to the extent not obtained on or prior to the date of issue of the Senior Secured Notes, obtain on or before the date on which they are required to be obtained, or cause to be so maintained or obtained, all (i) governmental authorizations, permits and approvals, including all environmental authorizations, permits and approvals, (ii) third-party authorizations, (iii) native title authorizations, permits and approvals and (iv) licenses, easements, mining leases, railway leases, rights-of-way, auxiliary rights and other real property rights, in each case that are necessary in order to develop, construct, operate, maintain and finance the Project in the manner contemplated by the Offering Memorandum, the Base Case Model and the Project Construction Plan (“Authorizations”), in good standing, in full force and effect, in its name or in the name of its contractors, not subject to appeal and free from conditions or requirements, except to the extent that a failure to do so could not reasonably be expected to result in a Material Adverse Effect. Each of the Project Guarantors shall comply with and observe all Authorizations, complying with all applicable terms and conditions, pay all fees when due and take all actions to prevent cancellation, termination or suspension of any Authorization, except to the extent that a failure to do so could not reasonably be expected to result in a Material Adverse Effect.

### ***Scope of Work; Engagement of Contractors***

The Project Guarantors shall use their reasonable best efforts to perform, or cause to be performed, all work and services required or appropriate (as set forth in the Master Control Budget reviewed by the Independent Engineer) in connection with the design, engineering, construction, testing and commencement of operations of the Project in accordance with the Definitive Feasibility Study and the Base Case Model, including

(i) ***Engineering and Design.*** The Project Guarantors shall use their reasonable best efforts to provide or cause to be provided all engineering and design services necessary to complete the Project in accordance with the Definitive Feasibility Study, the Master Control Budget, the Base Case Model and the Material Project Agreements, including (A) the design and engineering necessary to describe and detail the Project (B) the provision of criteria for the detailed design engineering and planning for contractors and subcontractors providing equipment and related services for the Project and (C) the preparation of all plans and specifications for the Project, including the Mine Plan, and any amendments, modifications, additions or deletions thereof;

(ii) ***Procurement, Construction and Construction Management.*** The Project Guarantors shall oversee the construction of the Project and ensure the expeditious completion thereof in accordance with the detailed Project construction plan reviewed by the Independent Engineer (the “Project Construction Plan”), the Master Control Budget, the Base Case Model and the Material Project Agreements. The Project Guarantors shall use their reasonable best efforts to require all contractors to perform, (and in the case of subcontractors of any such contractors, require the contractor to require such subcontractors to perform), their contractual undertakings, and to perform all necessary duties incident thereto. The Project Guarantors shall use their reasonable best efforts to issue to such contractors such directives and impose such restrictions as may be required in the construction of the Project to obtain compliance by such contractors and their subcontractors with the terms of their contracts. The Project Guarantors shall use their reasonable best efforts to provide or cause to be provided all necessary construction management, supervision and administration services and all other services and items required to complete the Project in accordance with the Project Construction Plan.

(iii) **Purchase of Equipment.** The Project Guarantors shall use their reasonable best efforts to purchase or arrange the purchase of all equipment and materials for the construction of and incorporation into the Project that are required for completion of the Project in accordance with the Project Construction Plan, the Master Control Budget, the Base Case Model and the Material Project Agreements.

(iv) **Inspection and Expediting.** The Project Guarantors shall use their reasonable best efforts to perform or cause to be performed (A) all inspection, expediting and quality control services as are required for the construction of the Project and (B) periodic inspections of work in progress to ensure that the Project is proceeding in accordance with the Master Control Budget, the Base Case Model and the Project Construction Plan.

#### ***Construction and Completion of the Project***

The Project Guarantors shall use their reasonable best efforts to cause the Project to be constructed in all material respects in accordance with the Project Construction Plan, the Master Control Budget, and the Base Case Model and to cause Project Completion to occur on or before August 1, 2008.

#### ***Construction Reports***

FMG Finance will provide a monthly construction report to the Trustee and the Independent Engineer within 21 days after the end of each month. FMG Finance will ensure that the monthly construction reports include the information reasonably requested by the Independent Engineer, including, without limitation:

- (i) a comparison of progress in the construction of the Project in the previous month against the Project Construction Plan, as it may be amended from time to time;
- (ii) a comparison of project construction expenditures against the Master Control Budget, as it may be amended from time to time, including a description of any material variations or change orders issued;
- (iii) any material delays envisaged in the construction of the Project and the reasons for such delay (such as an industrial dispute, shipping delays or weather);
- (iv) any relevant material invoices relating to the construction of the Project; and
- (v) any material disputes or defaults under any material construction contracts.

The Independent Engineer will confirm to the Trustee the adequacy of each monthly construction report. If the Independent Engineer is of the view, acting reasonably, that the monthly construction report inadequately addresses an area which it is required to report on, FMG Finance will procure that the next occurring monthly construction report addresses the issue raised by the Independent Engineer or will separately provide the information required to the Independent Engineer.

#### ***Changes to the Master Control Budget and the Project Construction Plan***

FMG Finance will notify the Trustee and the Independent Engineer of any change to the Master Control Budget which will increase the then existing Master Control Budget by more than A\$50,000,000. FMG Finance and the Project Guarantors may implement a change to the Master Control Budget provided that: (a) the change relates to the Project, and (b) following implementation of any change which, together with any other changes made to the Master Control Budget will result in a cumulative increase of more than A\$100,000,000 to the Master Control Budget reviewed by the Independent Engineer prior to the Issue Date, the Cost to Complete Test will continue to be satisfied. Any time a change in the Master Control Budget described in clause (b) of the foregoing sentence is proposed to be made, FMG Finance must provide the Collateral Trustee with a certificate from a Responsible Officer describing in reasonable detail the nature and cost of the proposed change and certifying that the requirements of the preceding sentence are satisfied. The Independent Engineer must countersign the certification to confirm that the requirements for such a change are satisfied to its reasonable satisfaction.

FMG Finance and the Project Guarantors must: (a) update the Project Construction Plan to reflect any delay in the achievement of Project Completion from that set out in the Project Construction Plan provided to the Independent Engineer prior to the Issue Date, and (b) notify the Independent Engineer and the Trustee of any

material change to the Project Construction Plan. A material change in the Project Construction Plan will be deemed to be a change which will, together with all other changes to the Project Construction Plan, cause or potentially cause a delay in the achievement of Project Completion in accordance with the Project Construction Plan, of more than 30 days. FMG Finance and the Project Guarantors may implement a material change in the Project Construction Plan provided that the implementation of the material change will not result in FMG Finance failing, following the implementation of that material change to the Project Construction Plan, the Cost to Complete Test. Prior to any material change to the Project Construction Plan, FMG Finance must deliver to the Collateral Trustee a certificate of a Responsible Officer providing reasonable detail regarding the proposed material change to the Project Construction Plan, the cost of the proposed material change and the sources of available funding and certifying that the proposed material change to the Project Construction Plan will not result in FMG Finance and the Project Guarantors failing the Cost to Complete Test. The certification delivered to the Collateral Trustee must be countersigned by the Independent Engineer to confirm the requirements for such a material change in the Project Construction Plan are satisfied to its reasonable satisfaction.

#### ***Project Documents and Material Project Agreements***

Each Project Guarantors shall comply in all material respects with its payment and other material obligations under the Project Documents and Material Project Agreements. FMG Finance and the Project Guarantors must notify the Trustee and the Independent Engineer when entering into or terminating any Material Project Agreement and provide a copy of any such contract to the Trustee and the Independent Engineer. The Project Guarantors shall not agree to any material amendment or termination of any Project Document to which it is or becomes a party unless (i) a copy of such amendment or termination has been delivered to the Collateral Trustee at least 10 business days in advance of the effective date thereof along with an officer's certificate of a Responsible Officer certifying that the proposed amendment or termination could not reasonably be expected to have a Material Adverse Effect or (ii) the Project Guarantors have obtained the consent of a majority of the holders of the Senior Secured Notes to such amendment or termination. Notwithstanding the foregoing, so long as the Senior Secured Notes shall remain outstanding, the Project Guarantors shall maintain in full force and effect:

- (i) the Port Lease, after it becomes effective;
- (ii) an agreement with a reputable mining contractor with substantial experience in iron ore mining projects providing for the development, commissioning, operation and maintenance of the Mining Project (unless the Project Guarantors obtain written certification from the Independent Engineer, in a form reasonably acceptable to the Collateral Trustee, that (A) in the Independent Engineer's reasonable view, one or more of the Project Guarantors has sufficient and appropriate internal capability to operate and maintain the Mining Project, and (B) the relevant Project Guarantor has confirmed to the Collateral Trustee that it will operate and maintain the Mining Project); and
- (iii) prior to Project Completion, an agreement with a reputable EPCM contractor for the Infrastructure Project;

the parties to each of which shall be required to execute tripartite agreements substantially in the form of the existing tripartite agreements in force as of the Issue Date.

#### ***Project Completion***

When FMG Finance and the Project Guarantors believe that Project Completion has been achieved, FMG Finance must deliver to the Trustee and the Collateral Trustee a certificate of a Responsible Officer of FMG Finance certifying that Project Completion has been achieved and detailing the basis for that conclusion. The certificate of the Responsible Officer of FMG Finance certifying to Project Completion must be countersigned by the Independent Engineer, to confirm the Independent Engineer's satisfaction, acting reasonably, that Project Completion has been achieved, prior to its delivery to the Trustee.

#### ***Operation of the Project***

FMG Finance and the Project Guarantors shall (i) cause the Project to be operated, repaired and maintained at all times in accordance with prudent industry practice, Material Project Agreements, the Master Control

Budget and the Base Case Model (as updated from time to time by an annual budget and operating plan), (ii) maintain or caused to be maintained such spare parts and inventory as are consistent with the Project Documents and prudent industry practice and (iii) maintain or cause to be maintained at the Project site a complete set of plans and specifications for the Project.

#### ***Technology***

Each Project Guarantor shall (i) take all such reasonable actions as may be necessary to ensure that it possesses, or has the right to use, all licenses and other rights with respect to technology prior to Project Completion (or at such earlier time as may be required under the circumstances), (ii) use proven industry technology and (iii) maintain in place all licenses and other rights with respect to technology, in each case to the extent necessary for the development, construction, operation or maintenance of the Project at any time, except where the failure to take such actions or maintain such licenses or rights could not reasonably be expected to have a Material Adverse Effect.

#### ***Preservation of Security Interests***

Each of FMG Finance and the Project Guarantors shall preserve, maintain and perfect the first priority security interests granted under the Security Documents and preserve and protect the Collateral as set forth in the Security Documents.

#### ***Accounts***

FMG Finance and the Project Guarantors shall cause the Project Accounts to be established and maintained at all times in accordance with the Indenture, shall maintain no bank accounts other than the Project Accounts and shall make no transfer, deposit or withdrawal from any Project Account, except in each case as specifically permitted in the Indenture. FMG Finance shall not establish or maintain any other bank account.

#### ***Credit Rating Agencies***

FMG Finance and the Project Guarantors shall take all actions as may be necessary or appropriate from time to time to cause the Senior Secured Notes to be rated by at least two Credit Rating Agencies. If one of the two Credit Rating Agencies ceases to be a “nationally recognized statistical rating organization” registered with the SEC or ceases to be in the business of rating securities of the type and nature of the Senior Secured Notes, FMG Finance and the Project Guarantors may replace the rating received from it with a rating from any other “nationally recognized statistical rating organization” in the business of rating securities of the type and nature of the Senior Secured Notes.

#### **Selected Covenants under the Parent Guarantee**

The following covenants will apply to Fortescue and the Non-Project Subsidiaries as long as the Parent Guarantee is outstanding.

#### ***Limitation on Parent Indebtedness***

Fortescue shall not, and shall not permit any Non-Project Subsidiaries to, Incur any Indebtedness on or after the Issue Date; *provided, however*, that Fortescue or any Non-Project Subsidiary may Incur Indebtedness if on the date thereof and after giving effect thereto the Parent Consolidated Coverage Ratio would be greater than 2.5 to 1.

Notwithstanding the limitation on Indebtedness described in the foregoing paragraph, Fortescue or any Non-Project Subsidiary may Incur the following Indebtedness:

- (i) Indebtedness represented by a guarantee by Fortescue of any Indebtedness of FMG Finance or any Project Guarantor permitted under “—Limitation on Indebtedness”;
- (ii) Parent Refinancing Indebtedness;
- (iii) Indebtedness:
  - (A) in respect of performance bonds, letters of credit, bankers’ acceptances and surety or appeal bonds or deposits provided by or on behalf of any of Fortescue or any Non-Project Subsidiary in the ordinary course of its business;

(B) in respect of performance bonds back guarantees or similar obligations of or issued on behalf of Fortescue or any Non-Project Subsidiary for or in connection with pledges, deposits or payments made or given in relation to such performance bonds, back guarantees or similar instruments in the ordinary course of business in connection with or to secure statutory, regulatory or similar obligations, including obligations under mining health, safety or environmental obligations; and

(C) arising from guarantees to suppliers, lessors, licensees, contractors, franchises or customers' obligations (other than Indebtedness) incurred in the ordinary course of business:

(iv) Indebtedness of Fortescue arising under a bank working capital facility not in excess of US\$50 million, provided that no Indebtedness shall be drawn under such a facility until after Project Completion; and

(v) Indebtedness of Fortescue or any Non-Project Subsidiary consisting of Permitted Hedging Obligations; and

(vi) additional Indebtedness of Fortescue and/or any Non-Project Subsidiary aggregating not in excess of US\$25 million at any time outstanding.

For purposes of determining compliance with this "Limitation on Parent Indebtedness" covenant, solely to avoid duplication in the event that an item of Indebtedness meets the criteria of more than one of the categories of Indebtedness described above, Fortescue shall, in its sole discretion, classify at the time of Incurrence, and may from time to time reclassify, that item of Indebtedness and shall only be required to include the amount of that Indebtedness in one of the above categories of Indebtedness.

#### ***Limitation on Parent Restricted Payments***

Fortescue shall not, and shall not permit any Non-Project Subsidiary to, directly or indirectly:

(i) declare or pay any dividend or make any distribution on or in respect of its Capital Stock (including any payment in connection with any merger or consolidation) except (A) dividends or distributions payable in its Capital Stock (other than Disqualified Capital Stock) or in options, warrants or other rights to purchase such Capital Stock or (B) dividends paid by any Non-Project Subsidiary to its shareholders pro rata on the basis of their ownership interests;

(ii) purchase, redeem, retire or otherwise acquire for value any Capital Stock of Fortescue or any Non-Project Subsidiary held by Persons other than Fortescue or any direct or indirect wholly owned subsidiary of Fortescue; or

(iii) make any Investment (other than a Permitted Investment);

(any such dividend, distribution, purchase, redemption, repurchase, other acquisition, or Investment as described in preceding clauses (i) through (iii) being referred to as a "Parent Restricted Payment"); *provided*, that Fortescue or any Non-Project Subsidiary may make one or more Parent Restricted Payments not in excess of an aggregate of A\$20 million to satisfy Fortescue's obligations under the Mindy Mindy joint venture agreement for its share of exploration and feasibility expenses.

The amount of all Parent Restricted Payments, other than cash, shall be the Fair Market Value on the date of such Parent Restricted Payment, of the asset(s) or securities proposed to be paid, transferred or issued by Fortescue or the Non-Project Subsidiary, as the case may be, pursuant to such Parent Restricted Payment. The Fair Market Value of any non-cash Parent Restricted Payment shall be determined conclusively by the board of directors of Fortescue, acting in good faith.

#### ***Limitation on Parent Liens***

Neither Fortescue nor any Non-Project Subsidiary may directly or indirectly create, Incur assume or suffer to exist any Liens except for Parent Permitted Liens.



### ***Limitation on Parent Affiliate Transactions***

Fortescue shall not, and shall not permit any Non-Project Subsidiary to, directly or indirectly, enter into or conduct any transaction or series of related transactions (including the purchase, sale, lease or exchange of any property or the rendering of any service) with or for the benefit of any Affiliate of Fortescue or any such Non-Project Subsidiary (a "Parent Affiliate Transaction") unless:

- (i) the terms of such Parent Affiliate Transaction are no less favorable to Fortescue or such Non-Project Subsidiary than those that could be obtained at the time of such transaction in arm's-length dealings with a Person who is not an Affiliate;
- (ii) in the event such Parent Affiliate Transaction involves an aggregate amount in excess of US\$5 million, the terms of such transaction have been approved by a resolution of a majority of the members of the Board of Directors of Fortescue or such Non-Project Subsidiary and by a majority of the disinterested members of such Board of Directors (and such majority or majorities, as the case may be, determines that such Parent Affiliate Transaction satisfies the criteria in (i) above); and
- (iii) in the event such Parent Affiliate Transaction involves an aggregate amount in excess of US\$10 million, such Person has received a written opinion from an independent investment banking firm or other similar expert of nationally recognized standing that such Parent Affiliate Transaction is:
  - (a) fair to Fortescue or such Non-Project Subsidiary from a financial point of view; or
  - (b) complies with the requirements of clause (i) above.

The following items will not be Parent Affiliate Transactions and, therefore, the foregoing paragraph shall not apply to:

- (i) any Parent Restricted Payment permitted to be made by Fortescue or any Non-Project Subsidiary pursuant to the covenant described under "Limitation on Parent Restricted Payments";
- (ii) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment arrangements, or any stock options and stock ownership plans in the ordinary course for the benefit of employees, officers and directors, consultants and advisors approved by the Board of Directors of Fortescue;
- (iii) loans or advances to employees in the ordinary course of business of Fortescue and the Non-Project Guarantors in an aggregate amount outstanding not to exceed US\$2 million at any time;
- (iv) any transaction between and/or among Fortescue and the Non-Project Subsidiaries, or any of them;
- (v) indemnification agreements with, and the payment of fees and indemnities to, directors, officers, consultants and employees of Fortescue and the Non-Project Subsidiaries in the ordinary course of business;
- (vi) transactions pursuant to agreements in existence on the Issue Date that are, in the aggregate, immaterial to Fortescue and the Non-Project Subsidiaries taken as a whole;
- (vii) any employment, non-competition or confidentiality agreements entered into with its employees in the ordinary course of business;
- (viii) any Permitted Investment;
- (ix) any Shareholder Subordinated Indebtedness;
- (x) the guarantee by Fortescue of the Leucadia Subordinated Notes; and
- (xi) with respect to the requirement for a written opinion from an independent investment banking firm, the Services Agreement.

### ***Business***

Prior to Project Completion, Fortescue and the Non-Project Subsidiaries shall conduct no business activity other than (1) the development of the Project, (2) licensing the use of railway and port facilities to third parties, (3) exploration and feasibility study activities by Fortescue and the Non-Project Subsidiaries for which the

aggregate cost is not in excess of A\$20 million per annum, (4) investments in Mindy Mindy joint venture of up to A\$20 million, (5) the construction of a motel in Port Hedland that will provide accommodation for construction workers on the Project and (6) activities reasonably incidental to (1) through (5).

#### ***Limitation on Parent Asset Sales***

Fortescue and each of the Non-Project Subsidiaries shall not make any Asset Disposition unless:

- (i) Fortescue or such Non-Project Subsidiary receives consideration at the time of such Asset Disposition at least equal to Fair Market Value of the shares and assets subject to such Asset Disposition;
- (ii) at least 75% of the consideration thereof received by Fortescue or such Non-Project Subsidiary is in the form of cash or Cash Equivalents; and
- (iii) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied (at the election of Fortescue or the applicable Non-Project Subsidiary), (1) to the investment in or acquisition of Additional Assets within 365 days from the later of the date of such Asset Disposition or the receipt of such Net Available Cash, (2) to the purchase (including by means of open-market purchases or permitted optional redemption) of Senior Secured Notes or (3) to the permanent repayment of other senior Indebtedness of FMG Finance or the Project Guarantors that ranks prior to or *pari passu* with the Senior Secured Notes.

Any amounts of Net Available Cash from such Asset Disposition not applied in the manner described in (iii) above within 365 days after the receipt of the Net Available Cash shall constitute "Excess Proceeds". Excess Proceeds of less than US\$20 million will be carried forward and accumulated. Within 10 business days of the date on which the aggregate amount of Excess Proceeds exceeds US\$20 million, Fortescue or a Non-Project Subsidiary must make a mandatory offer to purchase the maximum principal amount of Senior Secured Notes at 101% of their principal amount plus accrued and unpaid interest, if any, thereon that may be purchased with the Excess Proceeds, pro rata among the Senior Secured Notes.

For the purposes of this covenant, the following will be deemed to be cash:

- (x) the assumption by the transferee of senior Indebtedness that ranks prior to or *pari passu* with the Senior Secured Notes and the release of Fortescue or applicable Non-Project Subsidiary from all liability on such senior indebtedness in connection with such Asset Disposition; and
- (y) securities, notes or other obligations received by Fortescue or any Non-Project Subsidiary from the transferee that are promptly (and in any event within 60 days) converted by Fortescue or such Non-Project Subsidiary into cash.

#### ***Parent Merger and Consolidation***

Fortescue shall not consolidate with or merge with or into, or convey, transfer or lease all or substantially all of its assets to any Person except that Fortescue may take any such action if:

- (i) the resulting, surviving or transferee Person (the "Parent Successor Company") shall be a corporation, partnership, trust or limited liability company organized and existing under the laws of Australia or any State thereof and the Parent Successor Company (if not Fortescue or one of the Project Guarantors) shall expressly assume, by supplemental indenture, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of Fortescue under the Parent Guarantee;
- (ii) immediately after giving effect to such transaction (and treating any Indebtedness that becomes an obligation of the Parent Successor Company or any Subsidiary of that Parent Successor Company as a result of such transaction as having been incurred by the Parent Successor Company or such Subsidiary at the time of such Transaction), no Default or Event of Default shall have occurred and be continuing and no material default under the Transaction Documents shall result therefrom;
- (iii) immediately after giving effect to such transaction, the Parent Successor Company would be able to incur at least an additional US\$1.00 of Indebtedness under the Parent Consolidated Coverage Ratio test described in the first paragraph under "—Limitation on Parent Indebtedness" above;
- (iv) the Consolidated Net Worth of the Parent Successor Company is not less than the Consolidated Net Worth of Fortescue immediately prior to the transaction;

(v) after giving effect thereto, the Parent Successor Company shall, directly or indirectly, own all the Capital Stock of FMG Finance and the Project Guarantors;

(vi) there has been delivered to the Trustee an opinion of counsel to the effect that Holders of the Senior Secured Notes will not recognize income, gain or loss for U.S. federal income tax or Australian tax purposes as a result of such merger, consolidation, conveyance, transfer or lease and will be subject to U.S. federal income tax and Australian tax on the same amount and in the same manner and at the same times as would have been the case if such merger, consolidation, conveyance, transfer or lease had not occurred; and

(vii) Fortescue shall have delivered to the Trustee an officers' certificate and an opinion of counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) complies with the Parent Guarantee and the Indenture.

The Parent Successor Company will succeed to, and be substituted for, and may exercise every right and power of, Fortescue under the Parent Guarantee, but, in the case of a lease of all or substantially all its assets, Fortescue will not be released from its obligations under the Parent Guarantee.

### **Release of Parent Guarantee**

Upon Project Completion, Fortescue will automatically be released from its obligations under the Parent Guarantee and all covenants under the Parent Guarantee.

### **Paying Agent and Registrar for the Senior Secured Notes**

Principal of and premium, if any, and interest on the Senior Secured Notes will be payable at the office or agency of FMG Finance maintained for such purpose in the City and State of New York (the "Paying Agent"). At the option of FMG Finance, payment of interest may be made by check mailed to the Holders of the Senior Secured Notes at their respective addresses set forth in the register of Holders of Senior Secured Notes; provided that if any Holder has given wire transfer instructions to FMG Finance or the applicable Paying Agent at least 15 days prior to the payment date, all payments of principal, premium, if any, and interest with respect to the Senior Secured Notes held by such Holder will be made by wire transfer of immediately available funds to the account specified by such Holder.

Until otherwise designated by FMG Finance, FMG Finance's office or agency in the City and State of New York will be the office of the Trustee maintained for such purpose in the City and State of New York. FMG Finance may change the applicable Paying Agent or registrar without prior notice to the Holders, and FMG Finance or any of Fortescue or the Project Guarantors may act as a Paying Agent or registrar.

You should read "Book-entry; Delivery and Form" below for more information on payments on the Senior Secured Notes through the Depository Trust Company.

### **Events of Default**

Each of the following will constitute an Event of Default under the Indenture:

- (i) a default in any payment of interest on any Senior Secured Note when due, continued for 30 days;
- (ii) a default in the payment of principal of any Senior Secured Note when due at its stated maturity, upon optional redemption, upon required repurchase, upon declaration or otherwise;
- (iii) the failure by FMG Finance, any Project Guarantor or, until Project Completion, Fortescue to comply with its obligations under the applicable "Merger and Consolidation" or "Parent Merger and Consolidation" covenant under the Indenture or Parent Guarantee, as the case may be;
- (iv) the failure by FMG Finance, any Project Guarantor or, until Project Completion, Fortescue to comply for 45 days with any obligations under any of the covenants under the Indenture or Parent Guarantee described herein (other than as described in clause (ii) and clause (iii) above and (ix) below);

(v) the Parent Guarantee ceases to be in full force and effect (except as contemplated by the terms thereof) or Fortescue denies or disaffirms its obligations under the Parent Guarantee;

(vi) Indebtedness of FMG Finance, any Project Guarantor, or until Project Completion, Fortescue, or any Non-Project Subsidiary, is not paid within any applicable grace period after final maturity or is accelerated by the Holders thereof because of a default, and the total amount of such Indebtedness unpaid or accelerated exceeds US\$10 million and such default shall not have been cured or such acceleration rescinded after a 10-day period;

(vii) certain events of bankruptcy, insolvency or reorganization of FMG Finance, the Project Guarantors or, until Project Completion, Fortescue or any Non-Project Subsidiary;

(viii) any judgment or decree for the payment of money in excess of US\$10 million (to the extent not covered by insurance) is rendered against FMG Finance, any Project Guarantor or, until Project Completion, Fortescue or any Non-Project Subsidiary and such judgment or decree shall remain undischarged or unstayed for a period of 60 days after such judgment becomes final and non-appealable;

(ix) the failure by FMG Finance or any Project Guarantor to comply in all material respects with its payment and other material obligations under a Project Document in respect of which a tripartite agreement between FMG Finance or the relevant Project Guarantor, the counterparty to the Project Documents and the Collateral Trustee has been entered into and such failure has not been remedied by FMG Finance or the relevant Project Guarantor (as applicable) before the commencement of the Collateral Trustee's cure period under the tripartite deed;

(x) any account described in "Accounts" is not maintained as required or any drawing under any such account is not made when required to be made and in any such case such failure continues unremedied for five business days (or, in the case of a failure to maintain any required amount in, or to make a drawing under, any DSR Account for 30 days);

(xi) the Security Documents shall cease to grant the Holders any of the Collateral or rights purported to be granted thereunder; or

(xii) the Project is abandoned in whole or in substantial part or is destroyed or made permanently inoperable in whole or in substantial part.

Each of the above Events of Default are without limitation to any other Event of Default. However, a default under clause (iv) will not constitute an Event of Default until the Trustee or the Holders of 25%, in aggregate principal amount of the Senior Secured Notes then outstanding notify FMG Finance of the default and such default is not cured within the time specified in clause (iv) after receipt of such notice.

In the case of an Event of Default described in (i) and (ii) above, all outstanding Senior Secured Notes will become due and payable immediately without further action or notice. If any other Event of Default occurs (other than an Event of Default with respect to FMG Finance pursuant to (vii) above) and is continuing, the Trustee or the registered Holders of not less than 25% in aggregate principal amount of the Senior Secured Notes then outstanding may declare to be immediately due and payable the principal amount of all the Senior Secured Notes then outstanding, plus accrued but unpaid interest to the date of acceleration. In case an Event of Default resulting from certain events of bankruptcy, insolvency or reorganization with respect to FMG Finance shall occur, such amount with respect to all the Senior Secured Notes shall be due and payable immediately without any declaration or other act on the part of the Trustee or the Holders of the Senior Secured Notes.

If the Indebtedness of Fortescue is accelerated or Fortescue enters into proceedings for bankruptcy, insolvency or reorganization after the Project Completion date, the Trustee may enforce its rights under the Security Documents to which Fortescue is a party to the extent necessary to protect the Trustee's interest in the property that is the subject of the Security under the Security Documents, but neither the Trustee nor any Holder of Senior Secured Notes will have any right to accelerate payment of the Senior Secured Notes or otherwise declare them due and payable prior to the stated maturity date.

Holders of the Senior Secured Notes may not enforce the Indenture or Senior Secured Notes except as provided in the Indenture. Subject to certain limitations with respect to the Senior Secured Notes, Holders of a majority in aggregate principal amount of the Senior Secured Notes then outstanding may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders of the Senior Secured Notes notice of any continuing Default or Event of Default if it determines that withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal, interest or Additional Amounts.

The Holders of a majority in aggregate principal amount of Senior Secured Notes then outstanding by notice to the Trustee may on behalf of the Holders of Senior Secured Notes waive any existing Default or Event of Default (and annul a declaration of acceleration) and its consequences under the Indenture except a continuing Default or Event of Default in the payment of interest or premium, if any, or the principal of the Senior Secured Notes.

FMG Finance is required to deliver to the Trustee annually a statement regarding compliance with the Indenture. As soon as possible and in any event within 10 days after becoming aware of any Default or Event of Default, the Project Guarantors and FMG Finance are required to deliver to the Trustee a statement specifying such Default or Event of Default.

### **Defeasance**

FMG Finance at any time may terminate all its obligations under the Senior Secured Notes and the Indenture (“legal defeasance”), except for certain obligations, including:

- (i) the rights of Holders of outstanding Senior Secured Notes to receive payments in respect of the principal of, or interest or premium, if any, on such Senior Secured Notes when such payments are due from the trust referred to below;
- (ii) FMG Finance’s obligations with respect to the Senior Secured Notes concerning the payment of Additional Amounts, issuing temporary Senior Secured Notes, registration of transfer or exchange of the Senior Secured Notes, mutilated, destroyed, lost or stolen Senior Secured Notes and the maintenance of a registrar and paying agent and money for security payments held in trust;
- (iii) the rights, powers, trusts, duties and immunities of the Trustee, and FMG Finance’s obligations in connection therewith; and
- (iv) the legal defeasance provisions of the Indenture.

FMG Finance at any time may terminate:

- (i) its obligations under the covenants described under “—Redemption of the Senior Secured Notes—Change of Control”, “—Selected Covenants under the Indenture”;
- (ii) Fortescue’s obligations under the covenants described under “—Selected Covenants under the Parent Guarantee”;
- (iii) the operation of the cross acceleration provisions, the judgment default provisions, and the bankruptcy, insolvency and reorganization provisions with respect to FMG Finance, the Project Guarantors, Fortescue or any Non-Project Subsidiary, the guaranty provisions and the security default provisions described under “—Events of Default” above; and
- (iv) the limitations contained in “Limitations on Indebtedness”;

such termination constituting “covenant defeasance.”

FMG Finance may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option.

If FMG Finance exercises its legal defeasance option, payment of the Senior Secured Notes may not be accelerated because of an Event of Default with respect thereto and Fortescue will be released from the Parent

Guarantee. If FMG Finance exercises its covenant defeasance option, payment of the Senior Secured Notes may not be accelerated because of an Event of Default specified in clauses (iii) and (iv) under “—Events of Default” above or because of the failure of FMG Finance to comply with the Limitation on Indebtedness covenant. If FMG Finance exercises its legal defeasance option or its covenant defeasance option, all of the Collateral will be released, Fortescue will be released from its obligations under the Parent Guarantee and the Project Guarantors will be released from their obligations under the Project Guarantees.

The legal defeasance option or the covenant defeasance option may be exercised only if:

(a) FMG Finance irrevocably deposits in trust with the Trustee for the benefit of the Holders of the Senior Secured Notes cash in U.S. dollars or U.S. Government Obligations for the payment of principal of, premium, if any, and interest, if any, on the Senior Secured Notes to maturity or redemption, as the case may be;

(b) FMG Finance delivers to the Trustee a certificate from an internationally recognized firm of independent certified public accountants reasonably acceptable to the Trustee expressing their opinion that the payments of principal, premium, if any, and interest when due and without reinvestment on the deposited U.S. Government Obligations plus any deposited money without investment will provide cash at such times and in such amounts as will be sufficient to pay principal, premium, if any, and interest when due on all the Senior Secured Notes to be defeased to maturity or redemption, as the case may be;

(c) 123 days pass after the deposit is made, and during the 123-day period, no Default described in clause (vii) under “ Events of Default” occurs with respect to FMG Finance or any other Person making such deposit which is continuing at the end of the period;

(d) no Default or Event of Default has occurred and is continuing on the date of such deposit and after giving effect thereto;

(e) such legal defeasance or covenant defeasance and deposit will not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than the Indenture) to which FMG Finance is a party or by which FMG Finance is bound;

(f) in the case of the legal defeasance option, FMG Finance delivers to the Trustee an opinion of counsel reasonably acceptable to the Trustee stating that:

(1) FMG Finance has received from the Internal Revenue Service a ruling, or

(2) since the date of the Indenture there has been a change in the applicable U.S. federal income tax law,

to the effect, in either case, that, and based thereon such opinion of counsel shall confirm that, the Holders of the Senior Secured Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same time as would have been the case if such defeasance had not occurred;

(g) in the case of the covenant defeasance option, FMG Finance delivers to the Trustee an opinion of counsel reasonably acceptable to the Trustee to the effect that the Holders of the Senior Secured Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such covenant defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred;

(h) FMG Finance must deliver to the Trustee an officers’ certificate of a Responsible Officer stating that the deposit was not made by FMG Finance with the intent of preferring the Holders of Senior Secured Notes being defeased over the other creditors of FMG Finance with the intent of defeating, hindering, delaying or defrauding creditors of FMG Finance or others;

(i) FMG Finance delivers to the Trustee an officers’ certificate of a Responsible Officer and an opinion of counsel reasonably acceptable to the Trustee, each stating that all conditions precedent to the defeasance and discharge of the Senior Secured Notes have been complied with as required by the Indenture; and

(j) FMG Finance delivers to the Trustee an opinion of counsel in Australia reasonably acceptable to the Trustee to the effect that Holders of the Senior Secured Notes will not recognize income, gain or loss for Australian tax purposes as a result of such deposit and defeasance and will be subject to Australian taxes (including withholding taxes) on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred.

### **Amendments, Supplements and Waivers**

Subject to certain exceptions, FMG Finance and the Trustee with the consent of the registered Holders of at least a majority in aggregate principal amount of the Senior Secured Notes then outstanding (including consents obtained in connection with a tender offer or exchange offer for the Senior Secured Notes) may amend the Indenture and the Senior Secured Notes, and the registered Holders of at least a majority in aggregate principal amount of the Senior Secured Notes then outstanding may waive any past default or compliance with any provisions of the Indenture and the Senior Secured Notes (except a default in the payment of principal, premium, interest, including Additional Amounts, if any, and certain covenants and provisions of the Indenture which cannot be amended without the consent of each Holder of an outstanding Senior Secured Note); *provided, however*, that if any amendment, waiver or other modification would only affect the Fixed Rate Notes or the Floating Rate Notes only the consent of the Holders of at least a majority in the aggregate principal amount of the then outstanding Senior Secured Notes of the affected series (and not the consent of the Holders of any other series of the Senior Secured Notes) shall be required. However, without the consent of each affected Holder of an outstanding Senior Secured Note affected hereby, no amendment may, among other things,

- (1) reduce the principal amount of Senior Secured Notes whose Holders must consent to an amendment or waiver;
- (2) reduce the rate of or extend the time for payment of interest, on any Senior Secured Note;
- (3) reduce the principal of, or extend the stated maturity of, any Senior Secured Note;
- (4) make any Senior Secured Note payable in money other than that stated in the Senior Secured Note;
- (5) impair the right of any Holder of the Senior Secured Notes to receive payment of principal, premium, if any, and interest, if any, on, such Holder's Senior Secured Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holder's Senior Secured Notes or any of the Parent Guarantee or Project Guarantees;
- (6) waive a default or event of default in the payment of principal of, or interest or premium, if any, on such Senior Secured Notes (except a rescission of acceleration of such Senior Secured Notes by the Holders of at least a majority in aggregate principal amount of the Senior Secured Notes, and a waiver of the payment default that resulted from such acceleration);
- (7) subordinate the Senior Secured Notes or any of the Parent Guarantee or Project Guarantees to any other obligation of FMG Finance, Fortescue or any Project Guarantor;
- (8) (A) release the security interest granted in favor of the Holders of the Senior Secured Notes in the Collateral other than pursuant to the terms of the Security Documents, or  
(B) release any other security interest that may have been granted in favor of the Holders of the Senior Secured Notes other than pursuant to the terms of such security interest,
- (9) reduce the premium payable upon the redemption of any Senior Secured Note or change the time at which any Senior Secured Note may be redeemed, as described under "Redemption of the Senior Secured Notes-Optional Redemption";
- (10) reduce the premium payable upon a Change of Control or, at any time after a Change of Control has occurred, change the time at which the Change of Control offer relating thereto must be made or at which the Senior Secured Notes must be repurchased pursuant to such Change of Control offer;
- (11) amend or modify the provisions described under "Additional Amounts";

(12) make any change in the amendment provisions which require each Senior Secured Notes Holder's consent or in the waiver provisions described in this section;

(13) make any change to the subordination provisions of the Indenture that would adversely affect the rights of the Holders of the Senior Secured Notes; or

(14) make any change in any of the Parent Guarantee or Project Guarantees, the Security Documents or any provision of the Indenture relating to the Collateral that would adversely affect the Holders of the Senior Secured Notes.

Notwithstanding the foregoing, the Indenture and the Senior Secured Notes may be amended by FMG Finance and the Trustee and the Parent Guarantee may be amended by Fortescue and the Trustee, without the consent of any Holder of the Senior Secured Notes to:

(1) cure any ambiguity, defect, error or inconsistency;

(2) provide for the assumption by a Successor Company or Parent Successor Company of the obligations of FMG Finance under the Indenture or of Fortescue under the Parent Guarantee, respectively;

(3) provide for uncertificated Senior Secured Notes in addition to or in place of certificated Senior Secured Notes (provided that the uncertificated Senior Secured Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Senior Secured Notes are described in Section 163(f)(2)(B) of the Code);

(4) add additional guarantees with respect to the Senior Secured Notes or release Fortescue from the Parent Guarantee or any of the Project Guarantors from the Project Guarantees, in each case as provided or permitted by the terms of the Indenture;

(5) further secure the Senior Secured Notes, release all or any portion of the Collateral pursuant to the terms of the Security Documents, add to the covenants of FMG Finance for the benefit of the Holders of the Senior Secured Notes or surrender any right or power conferred upon FMG Finance;

(6) make any change that does not adversely affect the legal rights of any Holder of the Senior Secured Notes under the Indenture, subject to the provisions of the Indenture;

(7) comply with any requirement of the Securities and Exchange Commission in connection with the qualification of the Indenture under the Trust Indenture Act of 1939; or

(8) provide for the issuance of additional Senior Secured Notes in accordance with the Indenture.

The consent of the Holders of the Senior Secured Notes is not necessary to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment. After an amendment becomes effective, FMG Finance will be required to mail to each registered Holder of the Senior Secured Notes at such Holder's address appearing in the security register a notice briefly describing such amendment. However, the failure to give such notice to all Holders of the Senior Secured Notes, or any defect therein, will not impair or affect the validity of the amendment.

### **Satisfaction and Discharge**

The Indenture will be discharged and will cease to be of further effect as to all Senior Secured Notes issued thereunder, when:

(1) either:

(a) all applicable Senior Secured Notes that have been authenticated, except lost, stolen or destroyed Senior Secured Notes that have been replaced or paid and applicable Senior Secured Notes for whose payment money has been deposited in trust and thereafter repaid to FMG Finance, have been delivered to the Trustee for cancellation; or



(b) all applicable Senior Secured Notes that have not been delivered to the Trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and FMG Finance has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust solely for the benefit of the Holders cash in U.S. dollars, non-callable U.S. Government Securities, or a combination thereof, in amounts as will be sufficient without consideration of any reinvestment of interest, to pay and discharge the entire indebtedness on the applicable Senior Secured Notes not delivered to the Trustee for cancellation for principal, premium, if any, and accrued interest to the date of maturity or redemption;

(2) no Default or Event of Default has occurred and is continuing on the date of the deposit or will occur as a result of the deposit and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which FMG Finance is a party or by which FMG Finance is bound;

(3) FMG Finance has paid or caused to be paid all sums payable by it under the Indenture; and

(4) FMG Finance has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the applicable Senior Secured Notes at maturity or the redemption date, as the case may be.

In addition, FMG Finance must deliver to the Trustee an officers' certificate of a Responsible Officer and an opinion of counsel reasonably acceptable to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

#### **Provision of Financial Statements and Reports**

So long as any of the Senior Secured Notes remain outstanding, FMG Finance will provide to the Trustee and each Holder of Senior Secured Notes or will provide to the Trustee for forwarding to each Holder of Senior Secured Notes, without cost to such Holder of Senior Secured Notes: (i) as soon as available after the end of each fiscal year (and, in any event, within 120 days after the close of such fiscal year), combined consolidated annual reports in English of FMG Finance and the Project Guarantors, including financial statements (containing a combined consolidated balance sheet as of the end of such fiscal year and immediately preceding fiscal year and combined consolidated statements of income, retained earnings and cash flows for such fiscal year and the immediately preceding fiscal year) with a report thereon by an internationally recognized independent firm of chartered accountants, and (ii) as soon as available (and, in any event, within 60 days after the close of each of the first three fiscal quarters of FMG Finance in each fiscal year) consolidated interim quarterly reports in English of FMG Finance and the Project Guarantors, containing a combined condensed consolidated balance sheet as of the end of each interim period covered thereby and as of the end of the immediately preceding fiscal year and combined condensed consolidated statements of earnings and cash flows for each interim period covered thereby and for the comparable period of the immediately preceding fiscal year. FMG Finance need not provide those annual or interim reports to the Trustee and each Holder of Senior Secured Notes if and to the extent that the reports are filed or furnished with the Australian Stock Exchange within the time periods referred to in clauses (i) and (ii) above.

In addition, FMG Finance agrees and each Project Guarantor and the Parent Guarantor (until Project Completion) will agree that, for as long as any Senior Secured Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which FMG Finance or such Project Guarantor or Parent Guarantor (until Project Completion) is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, FMG Finance or such Project Guarantor or Parent Guarantor (until Project Completion), as the case may be, shall supply to (i) any Holder of Senior Secured Notes or beneficial owner of a Senior Secured Note or (ii) a prospective purchaser of a Senior Secured Note or a beneficial interest therein designated by such Holder or owner, the information specified in, and meeting the requirements of Rule 144A(d)(4) under the Securities Act.

For so long as the Parent Guarantee is in effect, Fortescue will provide to the Trustee and each Holder of Senior Secured Notes or will provide to the Trustee for forwarding to each Holder of Senior Secured Notes, without

cost to such Holder of Senior Secured Notes: (i) as soon as available after the end of each fiscal year (and, in any event, within 120 days after the close of such fiscal year), annual reports in English, including financial statements (containing a consolidated balance sheet as of the end of such fiscal year and immediately preceding fiscal year and consolidated statements of income, retained earnings and cash flows for such fiscal year and the immediately preceding fiscal year) with a report thereon by an internationally recognized independent firm of chartered accountants, and (ii) as soon as available (and, in any event, within 60 days after the close of each of the first three fiscal quarters of Fortescue in each fiscal year) interim quarterly reports in English, containing a condensed consolidated balance sheet as of the end of each interim period covered thereby and as of the end of the immediately preceding fiscal year and condensed consolidated statements of earnings and cash flows for each interim period covered thereby and for the comparable period of the immediately preceding fiscal year. Fortescue need not provide those annual or interim reports to the Trustee and each Holder of Senior Secured Notes if and to the extent that Fortescue files or furnishes those reports with the Australian Stock Exchange and those reports are available on the ASX website within the time periods referred to in clauses (i) and (ii) above.

In addition, Fortescue agrees that, for as long as any Parent Guarantee are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which the Parent Guarantee is effective and Fortescue is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, Fortescue shall supply to (i) any Holder of Senior Secured Notes or beneficial owner of Senior Secured Notes or (ii) a prospective purchaser of Senior Secured Notes or a beneficial interest therein designated by such Holder or owner, the information specified in, and meeting the requirements of Rule 144A(d)(4) under the Securities Act.

#### **Governing Law**

The Indenture, the Senior Secured Notes, the Parent Guarantee and the Project Guarantees will be governed by the laws of the State of New York.

#### **Consent to Jurisdiction and Service of Process**

FMG Finance is a corporation organized under the laws of Australia. Most of the directors and all of the officers of FMG Finance, Fortescue and the Project Guarantors reside outside the United States, and substantially all of the assets of such persons and FMG Finance, Fortescue, and the Project Guarantors are located outside the United States. As a result, it may not be possible for Holders to effect service of process for a lawsuit within the United States upon such persons or to enforce against any of them in non-U.S. courts judgments obtained in courts of the United States, including, among others, judgments with respect to the payment of principal, interest, redemption price and any purchase price with respect to the Senior Secured Notes.

FMG Finance has been advised by its Australian legal counsel, Clayton Utz, that in such counsel’s opinion, the laws of Western Australia and the federal laws of Australia applicable therein permit an action to be brought in a court of competent jurisdiction in Western Australia on the final and conclusive judgment in personam of a United States federal court or a court of the State of New York sitting in the Borough of Manhattan in The City of New York (a “New York Court”) respecting the enforcement of the Senior Secured Notes, the Indenture, the Parent Guarantee or the Project Guarantees, that is for a definite sum of money and is not impeachable as void or voidable under the laws of the State of New York, is not directly or indirectly for the payment of taxes or other charges of a like nature or expropriation or a fine or other penalty and was not obtained by fraud or duress or based on a clear mistake of fact, and the enforcement of which would not be inconsistent with public policy or involve a denial of natural justice, there has not been a prior judgment in another court between the parties for the same issues as are dealt with in the foreign judgment and a declaration or order has not been made under the Foreign Proceedings (Excess of Jurisdiction) Act of 1984 (Commonwealth of Australia) in relation to the judgment. Furthermore, FMG Finance has been advised by such counsel that they do not know any reason under present laws of Western Australia and the federal laws of Australia applicable therein for avoiding recognition of such judgment of a New York Court under the Senior Secured Notes, the Indenture, the Parent Guarantee, or the Project Guarantees based upon a reasonable interpretation of public policy.

In connection with any legal action or proceeding arising out of or relating to the Senior Secured Notes, as the case may be, FMG Finance, Fortescue, each of the Project Guarantors has agreed:

- to submit to the jurisdiction of any New York Court, and any appellate court thereof;
- that all claims in respect of such legal action or proceeding may be heard and determined in such New York Court and that FMG Finance will waive, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding and any right of jurisdiction in such action or proceeding on account of the place of residence or domicile of FMG Finance; and
- to appoint as its process agent Corporation Service Company, with an office currently at 1133 Avenue of the Americas, New York, New York 10036.

The process agent will receive on behalf of FMG Finance, Fortescue, and each of the Project Guarantors and the property of any of them, as the case may be, service of copies of the summons and complaint and any other process which may be served in any such legal action or proceeding brought in such New York Court. Service may be made by mailing or delivering a copy of such process to FMG Finance, Fortescue and each of the Project Guarantors at the address specified above for the process agent.

A final judgment in any of the above legal actions or proceedings will be conclusive and may be enforced in other jurisdictions.

In addition to the foregoing, the Holders of the Senior Secured Notes may serve legal process in any other manner permitted by applicable law. The above provisions do not limit the right of any Holder of the Senior Secured Notes to bring any action or proceeding against FMG Finance, Fortescue and each of the Project Guarantors or the property of any of them in other courts where jurisdiction is independently established.

### **Book-entry, Delivery and Form**

The Senior Secured Notes will be initially issued in the form of multiple Global Securities registered in the name of The Depository Trust Company (“DTC”) or its nominee.

Upon the issuance of a Global Security, DTC or its nominee will credit the accounts of Persons holding through it with the respective principal amounts of the Senior Secured Notes represented by such Global Security purchased by such Persons. Such accounts shall be designated by the initial purchasers. Ownership of beneficial interests in a Global Security will be limited to Persons that have accounts with DTC (“participants”) or Persons that may hold interests through participants. Any Person acquiring an interest in a Global Security through an offshore transaction in reliance on Regulation S of the Securities Act may hold such interest through Clearstream Banking, S.A. or Euroclear Bank S.A./N.V., as operator of the Euroclear System. Ownership of beneficial interests in a Global Security will be shown on, and the transfer of that ownership interest will be effected only through, records maintained by DTC (with respect to participants’ interests) and such participants (with respect to the owners of beneficial interests in such Global Security other than participants). The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to transfer beneficial interests in a Global Security.

Payment of principal of and interest on the Senior Secured Notes represented by a Global Security will be made in immediately available funds to DTC or its nominee, as the case may be, as the sole registered owner and the sole Holder of the Senior Secured Notes represented thereby for all purposes under the Indenture. Fortescue and FMG Finance have been advised by DTC that upon receipt of any payment of principal of or interest on any Global Security, DTC will immediately credit, on its book entry registration and transfer system, the accounts of participants with payments in amounts proportionate to their respective beneficial interests in the principal or face amount of such Global Security as shown on the records of DTC. Payments by participants to owners of beneficial interests in a Global Security held through such participants will be governed by standing instructions and customary practices as is now the case with securities held for customer accounts registered in “street name” and will be the sole responsibility of such participants.

A Global Security may not be transferred except as a whole by DTC or a nominee of DTC to a nominee of DTC or to DTC. A Global Security is exchangeable for certificated Senior Secured Notes only if:

(a) DTC notifies Fortescue or FMG Finance, as the case may be, that it is unwilling or unable to continue as a depository for such Global Security or if at any time DTC ceases to be a clearing agency registered under the Exchange Act, and

(b) there shall have occurred and be continuing a Default or an Event of Default with respect to the Senior Secured Notes, as the case may be, represented by such Global Security.

Any Global Security that is exchangeable for certificated Senior Secured Notes pursuant to the preceding sentence will be exchanged for certificated Senior Secured Notes, as the case may be, in authorized denominations and registered in such names as DTC or any successor depository holding such Global Security may direct. Subject to the foregoing, a Global Security is not exchangeable, except for a Global Security of like denomination to be registered in the name of DTC or any successor depository or its nominee. In the event that a Global Security becomes exchangeable for certificated Senior Secured Notes,

(a) certificated Senior Secured Notes will be issued only in fully registered form in denominations of US\$2,000 or integral multiples thereof;

(b) payment of principal of, and premium, if any, and interest on, the certificated Senior Secured Notes will be payable, and the transfer of the certificated Senior Secured Notes will be registrable, at the office or agency of Fortescue or FMG Finance, as the case may be, maintained for such purposes; and

(c) no service charge will be made for any registration of transfer or exchange of the certificated Senior Secured Notes, although Fortescue or FMG Finance, as the case may be, may require payment of a sum sufficient to cover any tax or governmental charge imposed in connection therewith.

So long as DTC or any successor depository for a Global Security, or any nominee, is the registered owner of such Global Security, DTC or such successor depository or nominee, as the case may be, will be considered the sole owner or Holder of the Senior Secured Notes, as the case may be, represented by such Global Security for all purposes under the Indenture and the Senior Secured Notes, as the case may be. Except as set forth above, owners of beneficial interests in a Global Security will not be entitled to have the Senior Secured Notes, as the case may be, represented by such Global Security registered in their names, will not receive or be entitled to receive physical delivery of certificated Senior Secured Notes, as the case may be, in definitive form and will not be considered to be the owners or Holders of any Senior Secured Notes, as the case may be, under such Global Security. Accordingly, each Person owning a beneficial interest in a Global Security must rely on the procedures of DTC or any successor depository, and, if such Person is not a participant, on the procedures of the participant through which such Person owns its interest, to exercise any rights of a Holder under the Indenture, as the case may be. FMG Finance understands that under existing industry practices, in the event that FMG Finance requests any action of Holders or that an owner of a beneficial interest in a Global Security desires to give or take any action which a Holder is entitled to give or take under the Indenture, DTC or any successor depository would authorize the participants holding the relevant beneficial interest to give or take such action and such participants would authorize beneficial owners owning through such participants to give or take such action or would otherwise act upon the instructions of beneficial owners owning through them.

DTC has advised Fortescue and FMG Finance that DTC is a limited-purpose trust company organized under the Banking Law of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered under the Exchange Act. DTC was created to hold the securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers (which may include the initial purchasers), banks, trust companies, clearing corporations and certain other organizations some of whom (or their

representatives) own DTC. Access to DTC's book-entry system is also available to others, such as banks, brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

Although DTC has agreed to the foregoing procedures in order to facilitate transfers of interests in Global Securities among participants of DTC, it is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of FMG Finance, the Trustee or the initial purchasers will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

### **Certain Definitions**

*"Additional Assets"* means any property or assets (other than Indebtedness and Capital Stock) to be included in the Project.

*"Affiliate"* of any specified Person means any other Person, directly or indirectly controlling or controlled by or under common control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

*"AIFRS"* means Australian equivalents of the International Financial Reporting Standards.

*"Asset Disposition"* means any sale, lease, transfer, issuance or other disposition (or series of related sales, leases, transfers, issuances or dispositions that are part of a common plan) of shares of Capital Stock of (or any other equity interests in) or of any other property or other assets (each referred to for the purposes of this definition as a "disposition") by FMG Finance or any Project Guarantor, and until Project Completion, by Fortescue or any Non-Project Subsidiary (including any disposition by means of a merger, consolidation or similar transaction), other than:

- (i) a disposition of inventory or mineral product pursuant to a Project Document or in the ordinary course of business;
- (ii) a disposition of obsolete or worn out equipment or equipment that is no longer useful in the conduct of the business of Fortescue, the Non-Project Subsidiaries, FMG Finance and the Project Guarantors and that is disposed of, in each case in the ordinary course of business;
- (iii) dispositions of property for net proceeds that, when taken collectively with the net proceeds of any other such dispositions under this clause (iii) that were consummated since the beginning of the calendar year in which such disposition is consummated, do not exceed US\$10 million;
- (iv) transactions permitted under the "Merger and Consolidation" and "Parent Merger and Consolidation" covenants;
- (v) any transfer, assignment or other disposition deemed to occur in connection with creating or originating any Permitted Lien or Parent Permitted Lien;
- (vi) a Restricted Payment or a Parent Restricted Payment made in compliance with the covenant described above under the caption "- Certain Covenants—Limitation on Restricted Payments" and "Limitation on Parent Restricted Payments";
- (vii) a sale of any shares of Capital Stock of IBP; and
- (viii) a disposition to FMG Finance or a Project Guarantor and by Fortescue to any Non-Project Subsidiary.

*"Attributable Indebtedness"* in respect of a Sale and Leaseback Transaction means, as at the time of determination, the present value (discounted at the interest rate borne by the Senior Secured Notes, compounded annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale and Leaseback Transaction (including any period for which such lease has been extended).

“*Base Case Model*” means the financial model for the Project, the assumptions for which were reviewed and determined to be reasonable by the Independent Engineer as described in the Independent Engineer’s report included in the offering memorandum.

“*Bridge Loan*” means the syndicated loan note subscription agreement entered into by Fortescue on March 27, 2006 with Citisecurities Ltd. as facility agent and security trustee.

“*Business Day*” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York (or in any other place in which payments on the Senior Secured Notes are to be made) are authorized by law or governmental regulation to close.

“*Capital Stock*” of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

“*Capitalized Lease Obligation*” means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes in accordance with AIFRS. The amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with AIFRS, and the stated maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty.

“*Cash Equivalents*” means

- (i) United States dollars and Australian dollars;
- (ii) securities issued or directly and fully guaranteed or insured by the United States government or Australian government or any agency or instrumentality thereof;
- (iii) certificates of deposit, time deposits and eurodollar time deposits with maturities of one year or less from the date of acquisition, bankers’ acceptances with maturities not exceeding one year and overnight bank deposits, in each case with any commercial bank having capital and surplus in excess of US\$500 million;
- (iv) repurchase obligations for underlying securities of the types described in clauses (ii) and (iii) entered into with any financial institution meeting the qualifications specified in clause (iii) above;
- (v) commercial paper rated A-1 or the equivalent thereof by Moody’s or S&P and in each case maturing within one year after the date of acquisition;
- (vi) investment funds investing 95% of their assets in securities of the types described in clauses (i-v) above; and
- (vii) readily marketable direct obligations issued by any state of the United States of America or any political subdivision thereof, or any State of Australia in each case having one of the two highest rating categories obtainable from either Moody’s or S&P.

“*Change of Control*” means, other than in connection with the pledge of assets or shares as security for the obligations of FMG Finance, Fortescue and the Project Guarantors under the Senior Secured Notes, to the Holders of Senior Secured Notes or the Collateral Trustee, as the case may be, pursuant to their obligations under the Security Documents and the Indenture (i) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of FMG Finance or any of the Project Guarantors other than such sale, lease, exchange or other transfer to FMG Finance or a Project Guarantor; (ii) Fortescue ceasing to own, directly or indirectly, 50.1% or more of the voting and economic interests in the

outstanding capital stock of FMG Finance, Chichester or, until Project Completion, TPI, (iii) a majority of the Board of Directors of Fortescue shall consist of Persons who are not Continuing Directors; or (iv) the acquisition by any Person or group of related Persons for purposes of Section 13(d) of the U.S. Securities Exchange Act of 1934, of the power, directly or indirectly, to vote or direct the voting of securities having more than 50% of the ordinary voting power for the election of directors of Fortescue.

“*Chichester*” means FMG Chichester Pty Ltd, ABN 83 109 264 262, a corporation organized under the laws of Australia.

“*Code*” means the U.S. Internal Revenue Code of 1986, as amended.

“*Collateral Trustee*” means Permanent Registry Limited (ACN 000 334 636), which may use its affiliate The Bank of New York as its agent with respect to any Project bank account that constitutes collateral in the City of New York, as Collateral Trustee under the Security Documents.

“*Consolidated Cash Flow*” means for any period for any Person, the Consolidated Net Income for such period,

- (a) plus the following to the extent deducted in calculating such Consolidated Net Income:
    - (i) income tax expense;
    - (ii) Consolidated Interest Expense;
    - (iii) depreciation expense;
    - (iv) amortization expense, other than any amortization of a prepaid cash expense that was paid in a prior period and amortization of deferred mining costs;
    - (v) all other non-cash items reducing Consolidated Net Income (excluding any non-cash item to the extent it represents an accrual of or reserve for cash disbursements for any subsequent period prior to the latest stated maturity of the Senior Secured Notes);
    - (vi) any interest payments made on the Leucadia Subordinated Notes; and
    - (vii) the portion of the operating expenses arising from Operating Lease Obligations (other than the portion taken into account in the definition of Consolidated Interest Expense); and
  - (b) minus any net increase in inventory or plus any net decrease in inventory;
- in each case for such Person and its Subsidiaries for such period.

Notwithstanding the foregoing, the income tax expense, depreciation expense and amortization expense of a Subsidiary shall be included in Consolidated Cash Flow only to the extent (and in the same proportion) that the net income of such Subsidiary was included in calculating Consolidated Net Income.

“*Consolidated Coverage Ratio*” as of any date of determination, means the ratio of:

- (i) the aggregate amount of the Consolidated Cash Flow of FMG Finance and the Project Guarantors, on a combined basis, for the period of the most recent four consecutive fiscal quarters ending prior to the date of such determination and as to which financial statements of the Project Guarantors are available; to
- (ii) the aggregate amount of the Consolidated Interest Expense of FMG Finance and the Project Guarantors, on a combined basis, for such four fiscal quarters;

*provided, however, that*

(A) if FMG Finance or any of the Project Guarantors has Incurred any Indebtedness since the beginning of such period and through the date of determination of the Consolidated Coverage Ratio that

remains outstanding or if the transaction giving rise to the need to calculate Consolidated Coverage Ratio is an Incurrence of Indebtedness, or both, Consolidated Cash Flow and Consolidated Interest Expense of FMG Finance and the Project Guarantors for such period shall be calculated after giving effect on a *pro forma* basis to:

(1) such Indebtedness as if such Indebtedness had been Incurred on the first day of such period (provided that if such Indebtedness is Incurred under a revolving credit facility (or similar arrangement) only that portion of such Indebtedness that constitutes the one year projected average balance of such Indebtedness (as determined in good faith by the Board of Directors of the Person Incurring such Indebtedness) shall be deemed outstanding for purposes of this calculation); and

(2) the discharge of any other Indebtedness repaid, repurchased, defeased or otherwise discharged with the proceeds of such new Indebtedness as if such discharge had occurred on the first day of such period;

(B) if since the beginning of such period any Indebtedness of any party has been repaid, repurchased, defeased or otherwise discharged (other than Indebtedness under a revolving credit or similar arrangement unless such revolving credit Indebtedness has been permanently repaid and has not been replaced), the Consolidated Interest Expense of such Person for such period shall be calculated after giving *pro forma* effect thereto as if such Indebtedness had been repaid, repurchased, defeased or otherwise discharged on the first day of such period; and

(C) if since the beginning of such period FMG Finance or any of the Project Guarantors shall have made any Asset Disposition, the Consolidated Cash Flow of such Person for such period shall be reduced by an amount equal to the Consolidated Cash Flow (if positive) attributable to the assets that are the subject of such Asset Disposition for such period or increased by an amount equal to the Consolidated Cash Flow (if negative) attributable thereto for such period, and the Consolidated Interest Expense of such Person for such period shall be:

(1) reduced by an amount equal to the Consolidated Interest Expense attributable to any Indebtedness of the Person repaid, repurchased, defeased or otherwise discharged in connection with such Asset Disposition for such period; and

(2) increased by interest income, if any, attributable to the assets that are the subject of such Asset Disposition for such period.

“*Consolidated Interest Expense*” means, for any period for any Person, the total interest expense of such Person and its Subsidiaries determined in accordance with AIFRS, plus, to the extent not included in such interest expense:

(i) interest expense attributable to Capitalized Lease Obligations;

(ii) amortization of debt discount;

(iii) capitalized interest;

(iv) non-cash interest expense;

(v) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing;

(vi) interest actually paid by such Person or any such Subsidiary under any guarantee of Indebtedness or other obligation of any other Person; and

(vii) the portion of the operating expenses arising from Operating Lease Obligations attributable to interest that would be Incurred if the relevant assets being leased had been purchased with borrowed money;

and less:

(i) to the extent included in such interest expense, the amortization of capitalized debt issuance costs;



- (ii) any interest payments on the Leucadia Subordinated Notes; and
- (iii) interest income.

“*Consolidated Net Income*” means for any period for any specified Person, the consolidated net income (loss) of such specified Person and its Subsidiaries determined in accordance with AIFRS, provided, however, that there shall not be included in such Consolidated Net Income:

(i) any net income (loss) of any Person acquired by such Person or any of its Subsidiaries in a pooling of interests transaction for any period prior to the date of such acquisition;

(ii) any net income of any Subsidiary of such specified Person if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Subsidiary, directly or indirectly, to such specified Person except to the extent of the dividends or distributions that may be paid during such period by such Subsidiary;

(iii) any gain or loss realized upon the sale or other disposition of any assets of such specified Person or its Subsidiaries that are not sold or otherwise disposed of in the ordinary course of business and any gain or loss realized upon the sale or other disposition of any Capital Stock of any Person;

(iv) any extraordinary gain or loss;

(v) the cumulative effect of a change in accounting principles;

(vi) the net income of any other Person, other than a Subsidiary of such specified Person, except to the extent of the lesser of

(A) dividends or distributions paid to such specified Person or any of its Subsidiaries by such other Person; and

(B) the net income of such other Person (but in no event less than zero) shall be included and the net loss of such other Person shall be included only to the extent of the aggregate Investment of such specified Person or any of its Subsidiaries in such other Person; and

(vii) any non-cash expenses attributable to grants or exercises of employee stock options.

“*Consolidated Net Worth*” of any Person means the total of the amounts shown on the balance sheet of such Person and its Subsidiaries, determined on a consolidated basis in accordance with AIFRS, as of the end of the most recent fiscal quarter of such Person (or fiscal half-year, if such Person does not report quarterly) ending prior to the taking of any action for the purpose of which the determination is being made and for which financial statements are available (but in no event ending more than 135 days prior to the taking of such action), as (i) the par or stated value of all outstanding Capital Stock of such Person plus (ii) paid in capital or capital surplus relating to such Capital Stock plus (iii) any retained earnings or earned surplus less (A) any accumulated deficit and (B) any amounts attributable to Disqualified Capital Stock.

“*Continuing Director*” of any Person means, as of any date of determination, any Person who (i) was a member of the Board of Directors of such Person on the Issue Date or (ii) was nominated for election or elected to the Board of Directors of such Person with the affirmative vote of a majority of the Continuing Directors of such Person who were members of such Board of Directors at the time of such nomination or election.

“*Cost to Complete Test*” means that funds available to the Project Guarantors in the Project Accounts, including the Cost-Overrun Reserve Account, are sufficient to achieve Project Completion and to pay any principal and interest due and payable on any Indebtedness of FMG Finance and the Project Guarantors prior to the achievement of Project Completion.

“*Credit Rating Agencies*” Moody’s, S&P, Fitch and any other “nationally recognized statistical rating organization” registered with the United States Securities and Exchange Commission.

*“Crushing and Screening Facility”* means the facility at the mine site to handle and prepare ore to meet the product specifications for the sale of iron ore.

*“Currency Agreement”* means in respect of a Person, any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party or a beneficiary.

*“Default”* means any event, act or condition that with notice or passage of time or both will become an Event of Default.

*“Disqualified Capital Stock”* means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event (other than an event that would constitute a Change of Control):

(i) matures (excluding any maturity as the result of an optional redemption by the issuer thereof) or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the Holder thereof, in whole or in part, on or prior to the stated maturity of the Senior Secured Notes; or

(ii) is convertible into or exchangeable (other than at the sole option of issuer thereof) for (a) debt securities or (b) any Capital Stock referred to in (i) above, in each case at any time prior to the latest stated maturity of the Senior Secured Notes.

*“Existing Arrangements”* means the contracts and other agreements in effect on the Issue Date to the extent specified in an annex to the Indenture.

*“Fair Market Value”* means, with respect to any asset or property (or ownership interest therein, as the case may be) of the applicable Person, the price that could be negotiated in an arm’s length transaction between a willing seller and a willing and able buyer, as determined by the Board of Directors of the Person with respect to which the determination is being made and evidenced by a resolution of such Board of Directors.

*“FMG Finance”* means FMG Finance Pty Ltd, ABN 118 887 835, a corporation organized under the laws of Australia.

*“Fortescue”* means Fortescue Metals Group Ltd, ABN 57 002 594 872, a corporation organized under the laws of Australia.

*“Guarantees”* means the Project Guarantees and the Parent Guarantee.

*“Guarantors”* means the Project Guarantors and Fortescue.

*“IBP”* means International Bulk Ports Pty Ltd, ACN 120 560 849.

*“Incur”* means issue, assume, guarantee, incur or otherwise become liable for.

*“Indebtedness”* means with respect to any Person on any date of determination (without duplication):

(i) the principal of and premium (if any) in respect of indebtedness of such Person for borrowed money;

(ii) the principal of and premium (if any) in respect of obligations of such Person evidenced by debentures, notes or other similar instruments;

(iii) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto) (other than obligations with respect to letters of credit securing obligations (other than obligations described in clauses (i), (ii) and (v)) entered into in the ordinary course of business of such Person to the extent that such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the third business day following receipt by such Person of a demand for reimbursement following payment on the letter of credit);

(iv) all obligations of such Person to pay the deferred and unpaid purchase price of property or services (except trade payables and accrued expenses incurred in the ordinary course of business), which purchase price is due more than six months after the date of placing such property in service or taking delivery and title thereto at the completion of such services;

(v) all Capitalized Lease Obligations and all Attributable Indebtedness of such Person;

(vi) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person;

(vii) all Indebtedness of other Persons to the extent guaranteed by such Person;

(viii) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Capital Stock or any Preferred Stock of such Person or any of its Subsidiaries to the extent such obligation arises on or before the stated maturity of the Senior Secured Notes (but excluding, in each case, accrued dividends);

(ix) all obligations of such Person to make lease payments under Operating Lease Obligations; and

(x) to the extent not otherwise included in this definition, obligations under Currency Agreements and Interest Rate Agreements.

The amount of Indebtedness of any Person at any date shall be the outstanding principal amount of all unconditional obligations as described above, as such amount would be reflected on a balance sheet prepared in accordance with AIFRS, and the maximum liability of such Person, upon the occurrence of the contingency giving rise to the obligation, of any contingent obligations described above at such date.

*“Independent Engineer”* means Connell Wagner Pty Ltd or such other engineering company as the Trustee and Fortescue may appoint.

*“Infrastructure Project”* means the project, consisting of construction, operation and ownership of the Project’s infrastructure including the Crushing and Screening Facility, Railway, Port Facility and all other related infrastructure.

*“Interest Rate Agreement”* means with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement as to which such Person is party or a beneficiary.

*“Investment”* in any Person means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business that are recorded as accounts payable on the balance sheet of such Person) or other extension of credit (including by way of guarantee or similar arrangement, but excluding any debt or extension of credit represented by a bank deposit other than a time deposit) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such Person.

*“Investment Grade”* means a rating of “AAA,” “AA,” “A” or “BBB,” as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest Rating Categories, by S&P or any of its successors or assigns and a rating of “Aaa,” or “Aa,” “A” or “Baa,” as modified by a “1,” “2” or “3” indication, or an equivalent rating representing one of the four highest Rating Categories, by Moody’s, or any of its successors or assigns or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Trustee as having been substituted for S&P or Moody’s or both, as the case may be.

*“Issue Date”* means the date on which the Senior Secured Notes will be issued by FMG Finance.

*“Leucadia”* means Leucadia National Corporation.

*“Leucadia Placement”* means the offer of 26,400,000 ordinary shares of Fortescue to Leucadia for gross proceeds of US\$300 million on the Issue Date.

*“Leucadia Subordinated Notes”* means the notes to be issued to Leucadia on the Issue Date, in the aggregate principal amount of US\$100 million by Chichester and guaranteed by Fortescue pursuant to a note deed poll, to be dated the Issue Date.

*“Lien”* means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

*“Lump Circuit”* means the transfer station and stacking conveyor at the mine site and a stacker, reclaimer and associated conveyor line and screen house of the port site scheduled to be constructed in the third year of operations of the Project.

*“Master Control Budget”* means the control budget of Project costs through expected Project Completion.

*“Material Adverse Effect”* means a material adverse effect on the assets, business, financial condition or prospects of FMG Finance or a Project Guarantor, in the aggregate, or in the Project, taken as a whole, or upon the ability of FMG Finance or any Project Guarantor to make payment when due of any amounts owing on the Senior Secured Notes or to comply with the terms of any of the Transaction Documents to which such Person is a party in any material respect.

*“Material Project Agreement”* means any contract with a value in excess of US\$10,000,000 that relates to the Project.

*“Mining Project”* means the project consisting of iron ore mining in the Cloud Break and Christmas Creek tenements.

*“Moody’s”* means Moody’s Investors Service and its affiliates and its successors.

*“Net Available Cash”* from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise, but only as and when received) therefrom, in each case net of:

(i) all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all taxes required to be paid or accrued as a liability under AIFRS, as a consequence of such Asset Disposition;

(ii) all payments made on any Indebtedness that is secured by any assets subject to such Asset Disposition in accordance with the terms of any Lien upon such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition or by applicable law, be repaid out of the proceeds from such Asset Disposition;

(iii) all distributions and other payments required to be made to any Person owning a beneficial interest in assets subject to sale or minority interest holders in Subsidiaries or joint ventures as a result of such Asset Disposition;

(iv) the deduction of appropriate amounts to be provided by the seller as a reserve, in accordance with AIFRS, against any liabilities associated with the assets disposed of in such Asset Disposition, provided, however, that upon any reduction in such reserves (other than to the extent resulting from payments of the respective reserved liabilities), Net Available Cash shall be increased by the amount of such reduction to reserves, and retained by FMG Finance or Project Guarantor, as applicable, after such Asset Disposition; and

(v) any portion of the purchase price from an Asset Disposition placed in escrow (whether as a reserve for adjustment of the purchase price, for satisfaction of indemnities in respect of such Asset Disposition or otherwise in connection with such Asset Disposition); provided, however, that upon the termination of such escrow, Net Available Cash shall be increased by any portion of funds therein released to FMG Finance or any Project Guarantor.

*“Non-Project Subsidiary”* means, until Project Completion, each Subsidiary of Fortescue other than FMG Finance, Chichester, PMA and TPI.

*“Operating Lease Obligations”* of any Person means the obligation of such Person to pay rent or other payment amounts under a long-term lease of more than three years (or other arrangements conveying the right to use) relating to core cash-generating assets, which in the case of FMG Finance and the Project Guarantors, includes rail assets, mining equipment, bulk material handling equipment for a mine, bulk material handling equipment for a port, which is, or would be required to be, classified and accounted for as an operating lease in accordance with A-IFRS.

*“Parent Consolidated Coverage Ratio”* means for any period, the Consolidated Coverage Ratio for such period determined:

- (i) by replacing all references to “FMG Finance and the Project Guarantors” in the definition of such term with “Fortescue”;
- (ii) by replacing all references to “FMG Finance or any of the Project Guarantors” with “Fortescue or any of its Subsidiaries”;
- (iii) including in the Consolidated Cash Flow of Fortescue for such period the aggregate of the Consolidated Cash Flow of each Subsidiary acquired directly or indirectly by Fortescue during such period, or attributable to any interests in any tangible property acquired by Fortescue or any existing Subsidiary during such period, in each case, for the portion of the period prior to such acquisition; and
- (iv) giving *pro forma* effect to the Consolidated Interest Expense attributable to any Indebtedness Incurred to effect each acquisition referred to in the foregoing clause (iii).

*“Parent Guarantee”* means the unconditional Guarantee by Fortescue of all amounts due under the Senior Secured Notes prior to Project Completion.

*“Parent Permitted Liens”* means, with respect to any Person:

- (a) pledges or deposits by such Person under worker’s compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness) or leases to which such Person is a party, or deposits to secure public or statutory obligations of such Person or deposits of cash or government bonds to secure surety or appeal bonds to which such Person is a party, or deposits as security for contested taxes or import duties or for the payment of rent, in each case Incurred in the ordinary course of business;
- (b) Liens imposed by law, such as carriers’, warehousemen’s and mechanics’ Liens, in each case for sums not yet due or being contested in good faith by appropriate proceedings or other Liens arising out of judgments or awards against such Person with respect to which such Person shall then be proceeding with an appeal or other proceedings for review;
- (c) Liens for property taxes not yet subject to penalties for non-payment or that are being contested in good faith and by appropriate proceedings;
- (d) Liens in favor of issuers of surety bonds, bank guarantees, or letters of credit issued pursuant to the request of and for the account of such Person in the ordinary course of its business; provided, however, that such letters of credit do not constitute Indebtedness;
- (e) minor survey exceptions, minor encumbrances, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property or Liens incidental to the conduct of the business of such Person or to the ownership of its properties that were not Incurred in connection with Indebtedness and that do not in the aggregate materially adversely affect the value of any such property or materially impair the use of such property in the operation of the business of such Person;

(f) Liens created by the Security Documents, or otherwise in favor of the holders of the Senior Secured Notes or the Trustee or the Collateral Trustee;

(g) Liens existing on the Issue Date;

(h) Liens securing Permitted Hedging Obligations so long as such Permitted Hedging Obligations relate to Indebtedness that is secured by a Lien on the same property securing such Permitted Hedging Obligations;

(i) Liens to secure any Refinancing Indebtedness (or successive Refinancing) as a whole, or in part, of any Indebtedness secured by any Permitted Lien; *provided, however*, that:

(x) such new Lien shall be limited to all or part at the same property that secured the original Lien (plus improvements to or on such Property); and

(y) the Indebtedness secured by such Lien at such time is not increased to any amount greater than the sum of:

(A) the outstanding principal amount or, if greater, committed amount of such secured indebtedness at the time the original Lien became a Permitted Lien; and

(B) an amount necessary to pay any fees and expenses, including premiums, related to such refinancing, refunding, extension, renewal or replacement;

(j) Liens under a working capital bank facility up to US\$50 million;

(k) Liens on property or shares of Capital Stock of another Person at the time such other Person becomes a Subsidiary of such Person; *provided, however*, that such Liens are not created, incurred or assumed in connection with, or in contemplation of, such other Person becoming such a Subsidiary; *provided further, however*, that such Lien may not extend to any other property owned by such Person or any of its Subsidiaries;

(l) Liens on property at the time such Person or any of its Subsidiaries acquires the property, including any acquisition by means of a merger or consolidation with or into such Person or a Subsidiary or such Person; *provided, however*, that such Liens are not created, incurred or assumed in connection with or in contemplation of such acquisition; *provided further, however*, that the Liens may not extend to any other property owned by such Person or any of its Subsidiaries;

(m) Liens securing Indebtedness or other obligations of a Subsidiary of such Person owing to such Person or a wholly owned Subsidiary of such Person;

(n) Liens securing Indebtedness incurred for the construction of a motel in Port Hedland that will provide accommodation for construction workers on the Project limited to the constructed assets; and

(o) Liens not otherwise permitted above that encumber assets having an aggregate Fair Market Value not in excess of US\$25 million at any one time.

*“Parent Refinancing Indebtedness”* means Indebtedness that refinances any Indebtedness of Fortescue or any Non-Project Subsidiary incurred pursuant to the first paragraph under *“Limitation on Parent Indebtedness”*, including Indebtedness that refinances Parent Refinancing Indebtedness; *provided, however*, that:

(i) such Parent Refinancing Indebtedness has a final stated maturity no earlier than the final stated maturity of the Indebtedness being refinanced;

(ii) such Parent Refinancing Indebtedness has an average life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the average life of the Indebtedness being refinanced; and

(iii) such Parent Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding or committed (plus fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced.

*“Permitted Hedging Obligations”* means (x) with respect to any of FMG Finance and the Project Guarantors, Indebtedness under Currency Agreements and Interest Rate Agreements to the extent related to the Senior Secured Notes, any Refinancing Indebtedness and any other senior indebtedness of FMG Finance and the Project Guarantors and (y) with respect to Fortescue, any Indebtedness incurred pursuant to the first paragraph of “Selected Covenants under the Parent Guarantee—Limitation on Indebtedness”.

*“Permitted Investment”* means, with respect to any Person, an Investment by such Person in:

- (i) Cash Equivalents;
- (ii) receivables owing to such Person, created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (iii) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;
- (iv) loans and advances to employees made in the ordinary course of business;
- (v) stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to such Person or in satisfaction of judgments or claims;
- (vi) Persons to the extent such Investment is received by such Person as consideration for asset dispositions effected in compliance with the covenant described under “—Limitation on Asset Sales” or “—Limitation on Parent Asset Sales”;
- (vii) prepayments and other credits to suppliers made in the ordinary course of business;
- (viii) Investments in connection with pledges, deposits, payments or performance bonds made or given in the ordinary course of business in connection with or to secure statutory, regulatory or similar obligations, including obligations under mining, health, safety or environmental obligations;
- (ix) in the case of an one of FMG Finance and the Project Guarantors, any other of such Persons; and
- (x) in the case of Fortescue, FMG Finance, the Project Guarantors and any entity to be established in connection with, and whose principal asset shall be, a hotel in Port Hedland to be constructed and used, at least initially, as accommodation for construction workers on the Project.

*“Permitted Liens”* means, with respect to any Person:

- (a) pledges or deposits by such Person under worker’s compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness) or leases to which such Person is a party, or deposits to secure public or statutory obligations of such Person or deposits of cash or government bonds to secure surety or appeal bonds to which such Person is a party, or deposits as security for contested taxes or import duties or for the payment of rent, in each case Incurred in the ordinary course of business;
- (b) Liens imposed by law, such as carriers’, warehousemen’s and mechanics’ Liens, in each case for sums not yet due or being contested in good faith by appropriate proceedings or other Liens arising out of judgments or awards against such Person with respect to which such Person shall then be proceeding with an appeal or other proceedings for review;
- (c) Liens for property taxes not yet subject to penalties for non-payment or that are being contested in good faith and by appropriate proceedings;
- (d) Liens in favor of issuers of surety bonds, bank guarantees, or letters of credit issued pursuant to the request of and for the account of such Person in the ordinary course of its business; provided, however, that such letters of credit do not constitute Indebtedness;
- (e) minor survey exceptions, minor encumbrances, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or

zoning or other restrictions as to the use of real property or Liens incidental to the conduct of the business of such Person or to the ownership of its properties that were not Incurred in connection with Indebtedness and that do not in the aggregate materially adversely affect the value of any such property or materially impair the use of such property in the operation of the business of such Person;

(f) Liens created by the Security Documents, or otherwise in favor of the holders of the Senior Secured Notes or the Trustee;

(g) Liens existing on the Issue Date;

(h) Liens securing Permitted Hedging Obligations so long as such Permitted Hedging Obligations relate to Indebtedness that is, and is permitted to be under the Indenture, secured by a Lien on the same property securing such Permitted Hedging Obligations;

(i) Liens to secure any Refinancing (or successive Refinancings) as a whole, or in Part, of any Indebtedness secured by any Permitted Lien; *provided, however*, that:

(x) such new Lien shall be limited to all or part at the same property that secured the original Lien (plus improvements to or on such Property); and

(y) the Indebtedness secured by such Lien at such time is not increased to any amount greater than the sum of:

(A) the outstanding principal amount or, if greater, committed amount of such secured indebtedness at the time the original Lien became a Permitted Lien; and

(B) an amount necessary to pay any fees and expenses, including premiums, related to such refinancing, refunding, extension, renewal or replacement;

(j) Liens under a working capital bank facility up to US\$50 million;

(k) Liens not otherwise permitted above that encumber assets having an aggregate Fair Market Value not in excess of US\$25 million at any one time.

“*Person*” means any individual, corporation, partnership, joint venture, association, joint-stock company trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

“*PMA*” means Pilbara Mining Alliance Pty Ltd, ABN 120 024 946, an Australian corporation.

“*Port Facility*” means the port facility to be constructed in Port Hedland.

“*Preferred Stock*”, as applied to the Capital Stock of any corporation, means Capital Stock of any class or classes (however designated) that is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such corporation, over shares of Capital Stock of any other class of such corporation.

“*Project*” means the project consisting of the Mining Project and the Infrastructure Project.

“*Project Completion*” means the earliest date when all of the following are true/have taken place:

- (i) all material Authorizations are in full force and effect;
- (ii) off-take agreements covering a minimum off-take amount of 30 Mtpa are in place;
- (iii) production through the Crushing and Screening Facility and transport over the Infrastructure Project and loading on board ship at the Port Facility of a minimum of 2Mt of High Grade Fines and Super Value Fines products mined from the Cloud Break and Christmas Creek tenements that complies (without penalty) with the requirements of the relevant off-take agreements over any four week period;
- (iv) both the Fixed Rate DSR Account and the Floating Rate DSR Account are fully funded;



- (v) no Default or Event of Default has occurred; and
- (vi) the Security is in place.

*“Project Construction Plan”* means the detailed plan for the construction of the Project reviewed and determined to be reasonable by the Independent Engineer in the Independent Engineer’s report included in the Offering Memorandum, as amended or supplemented up to the Issue Date.

*“Project Documents”* means:

- (i) the EPCM Contract;
- (ii) the Pilbara Mining Alliance Agreement;
- (iii) the Infrastructure State Agreement with Western Australia;
- (iv) the Mining State Agreement with Western Australia; and
- (v) the Port Lease.

*“Project Guarantees”* means the unconditional guarantees, on a joint and several basis, by the Project Guarantors of all amounts due under the Senior Secured Notes.

*“Project Guarantors”* means Chichester, TPI and PMA, and any subsidiary of any of them created after the Issue Date.

*“Railway”* means the heavy haul open access railway linking the Cloud Break tenements to the Port Facility.

*“Refinancing Indebtedness”* means Indebtedness that refinances any Senior Secured Notes or any Indebtedness of FMG Finance and any Project Guarantors incurred pursuant to the first paragraph under “Limitation on Indebtedness”, including Indebtedness that refinances Refinancing Indebtedness; provided, however, that:

- (i) such Refinancing Indebtedness has a final stated maturity no earlier than the final stated maturity of the Indebtedness being refinanced;
- (ii) such Refinancing Indebtedness has an average life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the average life of the Indebtedness being refinanced; and
- (iii) such Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding or committed (plus fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced.

*“Responsible Officer”* with respect to any Person means an executive officer of the Person, including the chief executive officer, the chief financial officer, or an executive director responsible for the operations of the Person.

*“Sale and Leaseback Transaction”* means any direct or indirect arrangement relating to any Property or asset whereby any Person transfers such Property or asset to another Person and such Person subsequently leases the Property or asset from such other Person, but which does not include a sale by FMG Finance or any Project Guarantor of any property where that property is subsequently leased back to FMG Finance or the Project Guarantor pursuant to a lease arrangement coming within the definition of Operating Lease Obligations.

*“S&P”* means Standard & Poor’s Ratings Group and its affiliates and its successors.

*“Security Documents”* means (i) the Collateral Trust Deed; (ii) the featherweight charge granted by Fortescue in favor of the Collateral Trustee; (iii) the fixed charge granted by Fortescue in favor of the Collateral Trustee; (iv) the share mortgage granted by Fortescue in favor of the Collateral Trustee; (v) the fixed and floating charge granted by PMA in favor of the Collateral Trustee; (vi) the share mortgage granted by FMG Pilbara Pty Ltd in favor of the Collateral Trustee; (vii) the featherweight charge granted by FMG Pilbara Pty Ltd in favor of the Collateral Trustee; (viii) the fixed and floating charge granted by Chichester in favor of the Collateral Trustee; (ix) the share mortgage granted by Chichester in favor of the Collateral Trustee; (x) the featherweight charge granted by Chichester in favor of the Collateral Trustee; (xi) the mining mortgage granted by Chichester in favor of the Collateral Trustee; (xii) the fixed and floating charge granted by FMG Finance in favor of the Collateral Trustee; (xiii) the share mortgage granted by IBP in favor of the Collateral Trustee, (xiv) the featherweight charge granted by IBP in favor of the Collateral Trustee; (xv) the fixed and floating charge granted by TPI in favor of the Collateral Trustee; and (xvi) the mortgage of lease charge granted by TPI in favor of the Collateral Trustee.

*“Services Agreement”* means the agreement between Fortescue and Chichester, TPI, PMA and FMG Finance pursuant to which Fortescue agrees to provide each such subsidiary with administrative and other overhead services for a total amount not in excess of A\$3 million per month.

*“Shareholder Subordinated Indebtedness”* means Indebtedness of FMG Finance or any of the Project Guarantors to Fortescue or any of its Subsidiaries other than FMG Finance or any of the Project Subsidiaries, which satisfies the requirements for such Indebtedness described under “Selected Covenants under the Indenture-Limitation on Indebtedness with Fortescue or Non-Project Subsidiaries”.

*“Snowden”* means Snowden Mining Industry Consultants.

*“Subordinated Obligation”* means any Indebtedness of FMG Finance or any Project Guarantor (whether outstanding on the Issue Date or thereafter Incurred) that is subordinate or junior in right of payment to the Senior Secured Notes (in the case of FMG Finance) or the Project Guarantees (in the case of the Project Guarantors) pursuant to a written agreement.

*“Subsidiary”* means any Person means any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by:

- (i) such Person;
- (ii) such Person and one of more Subsidiaries of such Person; or
- (iii) one or more Subsidiaries of such Person.

*“TPI”* means The Pilbara Infrastructure Pty Ltd, ABN 52 103 096 340, a corporation organized under the laws of Australia.

*“Transaction Documents”* means this Offering Memorandum, the Project Documents, the Security Documents, the Off-take Agreements, the Accounts Agreement, the EPCM Tripartite Deed, the Pilbara Mining Alliance Tripartite Deed, the Service Agreement Tripartite Deed, the Port Lease Tripartite Deed, the Subordination Deed, the Note Deed Poll for the Leucadia Subordinated Notes, the Senior Secured Notes, the Guarantees and the Indenture.

*“Trustee”* means The Bank of New York as Trustee under the Indenture.

*“WorleyParsons”* means WorleyParsons Services Pty Ltd ABN 61 001 279 812.

## DESCRIPTION OF THE COLLATERAL

### Relevant Forms of Security Under Australian Law

Two of the principal forms of security taken under Australian law are the mortgage (which can either be a legal mortgage or an equitable mortgage) and the charge (it is also possible under Australian law to take a pledge or a lien but these are not as common in financing transactions). Mortgages and charges create security interests in the strict legal and equitable sense.

A mortgage takes effect to create a security interest in the relevant secured asset to the holder of the security, with a power to sell the asset or complete the transfer. Assets that are subject to a mortgage cannot be disposed of by the owner of the secured asset without a release being provided by the holder of the security over the asset or without the purchase occurring subject to the mortgage. With a mortgage of mining tenements or real property which is part of the Torrens title system in Australia, there is no assignment of the mining tenement or real property to the holder of the security. Similarly, there is no transfer of ownership under an equitable mortgage.

A charge does not transfer ownership of the secured asset, but gives a security interest over the charged property which confers a power of sale to satisfy the secured debt. Charges are of two types: fixed and floating. An asset covered by a fixed charge cannot be disposed of free of the security interest of a security holder without the holder giving a release of the security interest. An asset covered by a floating charge, on the other hand, can be disposed of by the security provider free of the security interest without a release from the holder of the security interest being required. A floating charge is usually taken over assets which are routinely disposed of in the ordinary course of the business of the security provider and it would therefore create practical difficulties in the business of the security provider for the security to be fixed and releases required for disposal of the assets. Examples of assets over which floating security is usually taken include stock in trade and mineral product. A floating charge can "crystallize" into a fixed charge by notice to the security provider or immediately on the occurrence of an event specified in the security document. Until crystallization, the security holder does not have an enforceable security interest.

The choice of form of security for a particular asset is determined by the nature of the asset, the enforcement alternatives available for that asset and the flexibility required to operate the asset. As noted above, floating charges tend to be used with respect to assets which are disposed of by the security provider in the ordinary course of business. The mortgage tends to be used with respect to certain assets for which a convenient means of enforcement and preservation of priority is available if the security taken is in the form of a legal assignment of the asset to the security provider. The fixed charge is an effective form of security over other assets. The usual practice is for a single security document to provide for a fixed charge to be given over certain assets and a floating charge to be given over the security provider's other assets.

Under Australian law, perfection of security (except for securities in relation to mining rights or real property) requires that the security document be registered with ASIC. Full and complete registration requires the security documents to be duly stamped (if stamp duty is applicable). Failure to register may result in the security interest being void as against a liquidator or any controller of the assets of the security provider in the event of insolvency. In some circumstances, it would also result in a loss of priority for the creditors in favor of whom the security has been granted. Securities over interests in land must be registered at the relevant register in the State or Territory in which the land is situated in order to perfect the security and to gain priority over subsequent security interests. Certain securities over mining tenements must also be registered at the relevant register in the State or Territory in which the mining tenements are situated in order to perfect the security and to gain priority over subsequent security interests.

### Secured Moneys (Senior Secured Notes)

The security granted in favor of the Collateral Trustee will secure all moneys ("Secured Moneys") owing by FMG Finance in respect of the Senior Secured Notes, with the holders of all Senior Secured Notes referred to

as “Beneficiaries.” The Secured Moneys will also include moneys owing by Fortescue under the Parent Guarantee and by the Project Guarantors under the Project Guarantees. The Secured Moneys may also include moneys owing to other financiers.

### **Security Documents**

To secure payment of the Secured Moneys, FMG Finance, FMG Pilbara Pty Ltd, IBP, Chichester, TPI, PMA and Fortescue will enter into the documents listed below (the “Security Documents”).

FMG Finance will provide security by way of fixed and floating charge granted in favor of the Collateral Trustee over all of its assets and undertakings.

Fortescue will provide security by way of:

(a) an equitable share mortgage granted in favor of the Collateral Trustee over all of Fortescue’s shares in the issued share capital of PMA;

(b) a fixed charge over Fortescue’s interests in the Offtake Agreements and its interest in the shareholder subordinated indebtedness owned by Fortescue in relation to loans provided to the Project Group; and

(c) a “featherweight” charge granted in favor of the Collateral Trustee over all of its assets and undertakings, other than the shares which are the subject of the share mortgage granted by Fortescue described above and in other assets which are the subject of the fixed charge referred to above. The featherweight charge provides Fortescue with unfettered powers to dispose of and encumber assets which are the subject of this charge. This includes by granting security over those assets in favor of a third party. The featherweight charge is intended to give the Collateral Trustee a charge over the whole or substantially the whole of the assets of Fortescue in circumstances where an administrator has been appointed to Fortescue. Consequently, this charge is only enforceable after the appointment of an administrator to Fortescue.

FMG Pilbara Pty Ltd will provide security by way of:

(a) a limited recourse share mortgage granted in favor of the Collateral Trustee over all of the shares held by FMG Pilbara Pty Ltd in the issued capital stock of Chichester; and

(b) a featherweight charge granted in favor of the Collateral Trustee over all of its assets and undertaking, other than the shares which are the subject of the share mortgage granted by FMG Pilbara Pty Ltd described above.

IBP will provide security by way of:

(a) a limited recourse share mortgage granted in favor of the Collateral Trustee over all of the shares held by IBP in the issued capital stock of TPI; and

(b) a featherweight charge granted in favor of the Collateral Trustee over all of its assets and undertaking, other than the shares which are the subject of the share mortgage granted by IBP described above.

Chichester will provide security by way of:

(a) a fixed and floating charge granted in favor of the Collateral Trustee over all of its assets and undertaking (including the Mining State Agreement and Project Accounts), except for mining tenements not associated with the Project and except for the credit balance of certain bank accounts established as cash collateral for the issue of performance bonds and bank guarantees in relation to the Project Group’s obligations under regulations or contracts;

(b) a share mortgage granted in favor of the Collateral Trustee over all of Chichester's shares in the issued capital stock of FMG Finance;

(c) a mining mortgage granted in favor of the Collateral Trustee over its interests in its mining tenements associated with the Project; and

(d) a featherweight charge granted in favor of the Collateral Trustee over all of its assets and undertakings, other than the shares and other assets which are the subject of security documents granted by Chichester described above.

TPI will provide security by way of:

(a) a fixed and floating charge granted in favor of the Collateral Trustee over all of its assets and undertakings except for the credit balance of certain bank accounts established as cash collateral for the issue of performance bonds and bank guarantees in relation to the Project Group's obligations under regulations or contracts;

(b) a mortgage of lease over TPI's real property leases in respect of the port and railway, when this lease is granted; and

(c) a mining mortgage over its interest in material licenses in relation to the Project, when these licenses are issued.

PMA will provide security by way of a fixed and floating charge granted in favor of the Collateral Trustee over all of its assets and undertaking except for the credit balance of certain bank accounts established as cash collateral for the issue of performance bonds and bank guarantees in relation to the Project Group's obligations under regulations or contracts.

Other than in the case of the featherweight charges (which are only enforceable after the appointment of an administrator), the security provided for under the Security Documents becomes enforceable when an Event of Default occurs under the Senior Secured Notes and is continuing.

The share mortgages and deeds of charge will be registered with ASIC to comply with the requirements of the Corporations Act. The mortgage of lease will be registered with the Land Titles Office in Western Australia after it has been given in the future.

The mining mortgages will be registered with the Department of Industry and Resources in accordance with the Mining Act.

Some of the agreements the subject of the security require the consent of the contract counterparty to the assignment of rights under the relevant contract. For example, a receiver could not assign the Mining State Agreement or Infrastructure State Agreement without the Minister first approving the proposed purchaser and certain project agreements and native title agreements require the contract counterparty to consent to the assignment of the Project Group's interest in the contract.

### **Collateral Trust Deed**

Each of the Security Documents is granted in favor of Permanent Registry Limited, as Collateral Trustee (the "Collateral Trustee"), which may use its affiliate The Bank of New York as its agent with respect to any Project bank account that constitutes collateral in the City of New York. The Collateral Trustee is appointed pursuant to a deed of trust (the "Collateral Trust Deed").

Pursuant to the Collateral Trust Deed, the Collateral Trustee holds the benefit of the security for the Beneficiaries. The Beneficiaries include the holders of the Senior Secured Notes (all of whom qualify automatically for security under the Collateral Trust Deed by virtue of registration on the register established under the Indenture). The Beneficiaries may also include other senior lenders who are permitted to share in the senior security package.

All the Beneficiaries rank equally with each other on a *pari passu* basis for the respective amounts of the Secured Moneys owing to them.

The Collateral Trustee is required to act on the instructions of the Beneficiaries for the purposes of exercising any power under a Security Document. In the case of Beneficiaries who are holders of the Senior Secured Notes, the Trustee under the Senior Secured Notes will instruct the Collateral Trustee on behalf of those holders.

The Collateral Trust Deed will include a number of exclusions of liability and indemnities in favor of the Collateral Trustee, which are customary for documentation of this kind. Indemnities against all actions, proceedings, claims, charges, losses and demands, are satisfied in the first instance out of the moneys realized from the enforcement of the Security Documents. If there are no moneys available to satisfy the Collateral Trustee's indemnity, then each Beneficiary is liable to satisfy the indemnity (in an amount equal to its pro-rata share of the Secured Moneys).

### **Certain Australian Priority Limitations**

Under Australian law, the priority of a security described in the Security Documents (a "Security") will be subject to: (a) an encumbrance created in favor of a third party before the creation of the Security of which any Beneficiary has actual or constructive notice; (b) the interest of a third party who acquires the legal interest for value without notice of the Security or who acquires a registered interest in land under any relevant Torrens title statute or leasehold interest granted by the State; (c) in the case of any encumbrance created in favor of a third party after the creation of the Security, a legal mortgage taken by a mortgagee without notice of the prior charge, an equitable encumbrance where as a result of fraud, negligence or other conduct of a party, the equities as between the equitable encumbrancee and a Beneficiary are no longer equal, or a legal fixed charge taken by a chargee over the property of the chargor the subject of a floating charge that had not crystallized at the time of creation of that fixed charge; and (d) claims which may have or obtain priority over the Security by virtue of an applicable law which may affect the priority of the Security.

Claims which may have or obtain priority over the Security by virtue of an applicable law include (but are not limited to) claims: (a) under an encumbrance of which a Beneficiary had notice at the time of taking the Security or, in certain circumstances, of making any relevant advance; (b) for costs of administration and realisation of any encumbrance; (c) mandatorily preferred by law (such as under the Corporations Act, the *Income Tax Assessment Act 1936* (Cth) or the *Income Tax Assessment Act 1997* (Cth) or statutes regulating priorities between competing securities over interests in land or general law principles governing priorities of securities); (d) conferred or charged against the property secured under the Security by statute (including, without limitation, any local government rates and land tax applicable to real property which is property secured under the Security); (e) in connection with any floating charge in the Security, for any unpaid audit fees, unpaid wages, accrued holiday pay and long service leave or compensation for injuries and the right of indemnity of any administrator of the security provider under section 443D of the Corporations Act and the corresponding lien under section 443F of the Corporations Act securing that right of indemnity, but subject in each case to section 443E of the Corporations Act; (f) by a subsequent encumbrancee for the amount which represents any excess of the amount secured by the Security over the Security's priority amount (being the amount stated for the purposes of the Corporations Act to be the Security priority amount); (g) with respect to reservations, covenants, easements or other affectations recorded on the relevant certificate of title or other title document in relation to or otherwise affecting related property; (h) charges, mortgages and other encumbrances existing on an asset at the time of its acquisition; (i) any charge the priority of which operates by virtue of certain exceptions provided by the Corporations Act to the principle that registrable charges take priority according to the order in which they are registered; and (j) any charges the priority of which is not accorded by virtue of registration under the Corporations Act because the law does not extend to security interests which are not so registrable (but in this regard the position of the Collateral Trustee is no different from any person taking similar security in Australia).

A transfer of shares secured by a Security will be void as against the company in which the shares are issued: (a) after the commencement of a winding up by the court of that company, unless the court otherwise orders; (b) after the passing of a resolution for voluntary winding up of that company, unless made with the sanction of the liquidator, and (c) during the administration of that company (pursuant to the Corporations Act), except so far as the court otherwise orders.

## ENFORCEMENT OF LIENS

In Australia, liens usually take the form of mortgages or charges, depending on the type of property, but the practical effects of which are essentially the same.

The most common form of corporate lien is a fixed and floating charge over all the assets and undertaking of a debtor whereby fixed assets of the debtor are made subject to a fixed charge which prevents them from being dealt with by the debtor unless the fixed charge is released in relation to that property. Other assets, such as inventory and cash, are subject to a floating charge which allows the debtor to deal with them in the normal course of its business until the floating charge “crystallizes” and becomes a fixed charge, usually on the occurrence of an event of default. Certain claims rank in priority to the lien as specified in the section entitled “Description of the Collateral—Certain Australian Priority Limitations.”

Almost all liens created by companies in Australia must be registered on a register with ASIC (and/or such other appropriate government register, such as the land titles office in the relevant State or Territory) which is open to public inspection and any person dealing with the company will generally be regarded as having notice of these registered liens. Failure to register a lien in the appropriate registry can make them ineffective at law or, in the case of failure to register liens with ASIC within the specified period, void in certain circumstances. Failure to register can also affect the lien holder’s priority which, in general terms, is dependent upon the order in which liens are registered. These aspects are covered in the section entitled “Description of the Collateral—Certain Australian Priority Limitations.”

A creditor whose debt is secured by liens over property of the debtor can, under the terms of the laws, upon the occurrence of an event of default, enforce his lien by taking possession of the property or exercising his power of sale of, or most usually his power to appoint a receiver over, the property which is the subject of the lien (“Collateral”). The powers of a receiver (who is usually an independent certified practicing accountant) are contained in the lien and would include a power to manage the Collateral, to sell it and to pay the net proceeds of sale to the creditor who appointed him (after satisfying any prior liens, payment of expenses, preferred creditors under the Corporations Act and his remuneration).

A receiver appointed under a lien usually takes possession of all the Collateral to the exclusion of all lower ranking secured creditors and all unsecured and subordinated creditors. Although a receiver is expressed, for liability purposes, to be the agent of the debtor, his primary responsibility is to repay the moneys owed to the creditor who appointed him from the management or sale of the debtor’s property without having regard to the claims of other creditors (other than the claims of holders of prior ranking liens) except for general duties to act reasonably and in good faith and exercise a duty of care in his power of sale. During receivership, the debtor’s legal personality remains intact, and the directors retain their positions even though their powers of management are supplanted by those of the receiver. If the unsecured creditors seek to liquidate the debtor, the liquidator can only take control of property of the debtor which is not subject to liens and must wait until the secured debts have been satisfied, the receiver discharged and any remaining Collateral released from the lien before he can exercise any rights over it.

The only exception to the ability of the secured creditor to enforce the Collateral is where the debtor seeks protection from its creditors by appointing an administrator. A debtor may be put into administration by resolution of its board of directors. An administrator can also be appointed over the debtor by a secured creditor having a lien over the “whole or substantially the whole” of the assets of the debtor. If the directors of the debtor appoint the administrator, then within five business days of that administrator being appointed, a meeting of the debtor’s creditors is to be held to give the creditors the opportunity to reject the director’s choice of administrator and appoint another administrator.

The function of an administrator is to investigate the affairs of the company and report to all the creditors, both secured and unsecured, whether the company should be liquidated, enter into a deed of company

arrangement or be released from administration altogether. During the period of the investigation by the administrator, all actions against the debtor and its directors and all enforcements of liens are stopped without the leave of the court.

An administrator has to give immediate notice of his appointment to all secured creditors and a creditor who has a lien over “the whole or substantially the whole” of the company’s assets has a period of 10 business days (the “Decision Period”) to decide whether it will displace the administrator by appointing a receiver. If it does so, the receivership proceeds in the normal way. Creditors who do not have a security over “the whole or substantially the whole” of the company’s assets or who do not appoint a receiver during the Decision Period cannot subsequently enforce their liens during the period of the administration without the leave of the court.

If an Event of Default under the Senior Secured Notes were to occur and, following an appropriate vote of the holders of the Senior Secured Notes, then the Collateral becomes enforceable (without the need for any notice) and the Collateral Trustee may appoint a receiver (or “controller” as it is known under the Security Documents) to take possession of the Collateral, manage it and exercise the power to sell the property.

The receiver will be required to apply money received in relation to enforcing the Collateral:

- (a) in payment of amounts which have priority in law over the payments specified in paragraphs (b) to (i) below;
- (b) in payment of expenses, fees, charges and any other costs incurred by the Collateral Trustee or receiver;
- (c) in payment of any indemnity to be provided by the Beneficiaries under the Collateral Trust Deed;
- (d) in payment of costs associated with the property the subject of the Security Documents (costs which the Collateral Trustee or receiver thinks fit to pay);
- (e) in payment the receiver’s remuneration;
- (f) in payment of liens of which the Collateral Trustee or receiver has actual knowledge and which have priority to the Collateral;
- (g) in payment of the Secured Moneys to each Beneficiary;
- (h) in payment to any other secured creditor; and
- (i) if there is surplus, in paying the balance to entities who granted the Collateral.



## TAX CONSIDERATIONS

### U.S. Federal Income Tax Considerations

To ensure compliance with U.S. Treasury Department Circular 230, investors in the Senior Secured Notes are hereby notified that: (a) any discussion of U.S. Federal tax issues in this document is not intended or written by the Project Group to be relied upon, and cannot be relied upon by investors in the Senior Secured Notes, for the purpose of avoiding penalties that may be imposed on investors in the Senior Secured Notes under the U.S. Internal Revenue Code of 1986, as amended (the “Code”), (b) such discussion is written in connection with the promotion or marketing of the transactions or matters addressed herein by the Issuers and the Dealers, and (c) investors in the Senior Secured Notes should seek advice based on their particular circumstances from their own independent tax advisors. U.S. counsel does not intend to be, and is not, engaged in the promotion or marketing of the transactions or matters described in this offering memorandum, and no inference to the contrary shall be implied by reason of the U.S. tax discussion set forth herein.

#### *General*

The following summary sets forth certain material U.S. Federal income tax consequences of the purchase, ownership and disposition of the Senior Secured Notes. This summary is based on the Code, applicable income tax regulations issued thereunder by the U.S. Treasury Department, published rulings and other administrative pronouncements issued by the U.S. Internal Revenue Service (“IRS”) and U.S. court decisions, all as of the date hereof and all of which are subject to change or differing interpretations at any time and in some circumstances with retroactive effect. This summary does not discuss all aspects of U.S. Federal income taxation that may be relevant to a particular investor in light of the investor’s particular circumstances, or to certain types of investors subject to special treatment under the U.S. Federal income tax laws (such as financial institutions, tax-exempt organizations, insurance companies, regulated investment companies, controlled foreign corporations, brokers, dealers, traders in securities that elect to apply a mark-to-market method of accounting, persons holding Senior Secured Notes as part of a straddle, hedging, conversion or other integrated transaction, persons liable for alternative minimum tax, or U.S. persons whose functional currency (as defined in Section 985 of the Code) is not the U.S. Dollar). In addition, this summary does not consider the effect of any foreign, state, local or other tax laws, or generally any other U.S. tax consequence other than income tax consequences that may be applicable to investors. In general, this summary discusses the tax considerations applicable only to those purchasers who purchase the Senior Secured Notes in the initial offering at their “issue price” and does not discuss the tax considerations applicable to other purchases of Senior Secured Notes. This summary also assumes that the Senior Secured Notes are held as capital assets.

Each prospective purchaser of the Senior Secured Notes should consult its own tax advisors concerning the application of U.S. Federal tax laws to its particular situation, as well as any consequences of the purchase, ownership and disposition of the Senior Secured Notes arising under the laws of any other taxing jurisdiction.

As used herein, the term “U.S. Holder” means a beneficial owner of Senior Secured Notes that is for U.S. Federal income tax purposes (i) a citizen or individual resident of the United States or someone treated as a United States citizen or resident for U.S. Federal income tax purposes, (ii) a corporation or other entity treated as a corporation for U.S. Federal income tax purposes organized under the laws of the United States or of any state of the United States, including the District of Columbia, (iii) an estate the income of which is subject to U.S. Federal income tax without regard to its source, or (iv) a trust subject to the primary supervision of a United States court and the control of one or more United States persons.

The term “Non-U.S. Holder” means a beneficial owner of Senior Secured Notes that is not a U.S. Holder for U.S. federal income tax purposes. If a partnership (including for this purpose any entity treated as a partnership for U.S. Federal income tax purposes) is a beneficial owner of Senior Secured Notes, the U.S. Federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the

partnership. A Holder of Senior Secured Notes that is a partnership and the partners in such partnership should consult their own tax advisors concerning the particular U.S. Federal income tax consequences applicable to them of acquiring, holding or disposing of Senior Secured Notes.

### ***Tax Consequences to U.S. Holders***

#### ***Interest on Senior Secured Notes***

Stated Interest. Generally, the amount of any stated interest payments on a Senior Secured Note will be taxable to a U.S. Holder as ordinary interest income in accordance with the U.S. Holder's method of accounting for U.S. Federal income tax purposes.

#### ***Source of Interest on Senior Secured Notes***

Interest on the Senior Secured Notes will be considered to be from foreign sources for purposes of the foreign tax credit under the Code. Such interest generally will be "passive income" or "financial services income" for taxable years beginning on or before December 31, 2006, and "passive category income", or in certain cases "general category income", for taxable years beginning after December 31, 2006, which in either case is treated separately from other types of income for purposes of computing the foreign tax credit.

#### ***Disposition of a Note***

Upon the sale, exchange or retirement of a Note, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (other than amounts representing accrued and unpaid interest, which will be taxable as such) and such U.S. Holder's adjusted tax basis in such Note. A U.S. Holder's adjusted tax basis in a Note generally will equal such U.S. Holder's initial investment in such Note, increased by any OID and accrued market discount included in income, decreased by the amount of any payments that are not deemed qualified stated interest payments, and further decreased by any amortizable bond premium applied to reduce interest with respect to such Note. Such gain or loss generally will be long-term capital gain or loss if the Note was held for more than one year. Capital gain of a noncorporate U.S. Holder recognized before January 1, 2011 is generally taxed at a maximum rate that is currently 15% for long-term capital gain and 35% for short-term capital gain. For corporate taxpayers, both long-term and short-term capital gain are currently subject to a maximum rate of 35%. The claim of a deduction in respect of a capital loss may be subject to limitations. Gain or loss generally will be income or loss from sources within the United States for foreign tax credit purposes.

### ***Tax Consequences to Non-U.S. Holders***

Each Issuer of a Note intends to operate such that it will not derive United States source income or income effectively connected with the conduct of a trade or business in the United States for U.S. federal income tax purposes. Accordingly, subject to the discussion of backup withholding below, a non-U.S. Holder will not be subject to U.S. Federal income tax (including withholding tax) on any income in respect of the Senior Secured Notes, or on any gain realized by the non-U.S. Holder on the sale, exchange or redemption of Senior Secured Notes, unless (i) such income or gain is effectively connected with the conduct of a trade or business by the non-U.S. Holder in the United States (and, if an applicable treaty provides, is attributable to a permanent establishment that the non-U.S. Holder maintains in the United States), or (ii) in the case of gain realized by an individual non-U.S. Holder, the non-U.S. Holder is present in the United States for 183 days or more in the taxable year and certain other conditions are met.

### ***Backup Withholding***

Backup withholding of U.S. Federal income tax may apply to payments made in respect of the Senior Secured Notes to registered owners who are not exempt recipients and who fail to provide certain identifying

information (such as the registered owner's TIN) in the required manner. Generally, corporations, certain other entities and non-U.S. persons are exempt recipients, provided that they are able to certify their exempt status. Payments made in respect of the Senior Secured Notes to a U.S. Holder must be reported to the IRS, unless the U.S. Holder is an exempt recipient or establishes an exemption.

In addition, upon the sale of a Note to (or through) a broker, the broker must withhold backup withholding tax from the purchase price, unless either (i) the broker determines that the seller is a corporation or other exempt recipient or (ii) the seller provides, in the required manner, certain identifying information. Such a sale must also be reported by the broker to the IRS, unless the broker determines that the seller is an exempt recipient.

Any amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's U.S. Federal income tax; provided the required information is furnished by the beneficial owner to the IRS.

### **Australian Taxation**

In the opinion of Clayton Utz, the following fairly presents a summary of the material Australian income tax consequences as of the date hereof arising under the Income Tax Assessment Act (1936) ("1936 Act"), the Income Tax Assessment Act (1997) ("1997 Act", and together with the 1936 Act, the "Tax Acts") regulations, rulings and judicial interpretations now in effect, all of which are subject to change, possibly with retroactive effect in respect of an investment in the Senior Secured Notes by any investor who is not a resident of Australia for the purposes of the Tax Acts.

The summary is general in nature and is not intended to be nor should it be construed to be legal or tax advice to any particular investor. You should seek your own specific advice as to your tax position. Clayton Utz has not reviewed and expresses no opinion in respect of any financial projections or other tax assumptions used within this document.

#### ***Interest on the Senior Secured Notes***

Under current Australian law, payments of interest (including original issue discount and guarantee payments made in lieu of interest payable by the issuer) from, broadly speaking, an Australian business to a non-resident of Australia are subject to a 10% withholding tax unless Section 128F of the 1936 Tax Act applies to the issue or the interest is attributable to a permanent establishment of the non-resident in Australia. If the interest is attributable to a permanent establishment of the non-resident in Australia, subject to any relevant double tax agreement, normal Australian income tax rates apply.

Under section 128F of the 1936 Act interest payments made by a resident Australian company to a non-resident are exempt from interest withholding tax in the following circumstances:

- “(a) the company was a resident of Australia when it issued the debenture; and
- (b) the company is a resident of Australia when the interest is paid; and
- (c) the issue of the debenture satisfies the public offer test set out in subsections (3) or (4) of section 128F of the 1936 Act.”

The “public offer test” requires:

“...the issue of a debenture by a company satisfies the public offer test if the issue resulted from the debenture being offered for issue:

- (a) to at least 10 persons each of whom:
  - (i) was carrying on a business of providing finance, or investing or dealing in securities, in the course of operating in financial markets; and

(ii) was not known, or suspected, by the company to be an associate (see subsection (9)) of any of the other persons covered by this paragraph; or

(b) to at least 100 persons whom it was reasonable for the company to have regarded as either:

(i) having acquired debentures in the past; or

(ii) being likely to be interested in acquiring debentures; or

(c) as a result of being accepted for listing on a stock exchange outside of Australia, where the company had previously entered into an agreement with a dealer, manager or underwriter, in relation to the placement of debentures, requiring the company to seek such listing; or

(d) as a result of negotiations being initiated publicly in electronic form, or in another form, that was used by financial markets for dealing in debentures; or

(e) to a dealer, manager or underwriter, in relation to the placement of debentures, who, under an agreement with the company, offered the debenture for sale within 30 days in a way covered by any of paragraphs (a) to (d).”

The issue of the Senior Secured Notes by the Company also satisfies the public offer test if the Senior Secured Notes are classified as global bonds. The Senior Secured Notes are global bonds if:

(a) they are described as global bonds or global notes; and

(b) they are issued to a clearing house or to a person as trustee or agent for, or otherwise on behalf of, one or more clearing houses; and

(c) in connection with the issue, the clearing house or houses:

(i) confer rights in relation to the debenture or debt interest on other persons; and

(ii) record the existence of the rights; and

(d) before the issue:

(i) the company; or

(ii) a dealer, manager or underwriter, in relation to the placement of debentures or debt interests, on behalf of the company;

announces that, as a result of the issue, such rights will be able to be created; and

(e) the announcement is made in a way or ways covered by any of paragraphs (3)(a) to (e) of the 1936 Act (reading a reference in those paragraphs to “debentures or debt interests” as if it were a reference to such a right, and a reference to the “company” as if it included a reference to the dealer, manager or underwriter); and

(f) under the terms of the debenture or debt interest, interest in the debenture or debt interest are able to be surrendered, whether or not in particular circumstances, in exchange for other debentures or debt interests issued by the company that are not themselves global bonds.

Apart from payments of interest made to a permanent establishment discussed above, when the tests in Section 128F of the 1936 Act have been satisfied, payments of interest made by FMG Finance in respect of the Senior Secured Notes to a person who is not a resident of Australia within the meaning of the 1997 Act who has acquired or thereafter acquires any of the Senior Secured Notes will not incur any Australian tax. The Company intends to issue the Senior Secured Notes in a manner which will satisfy the requirements of section 128F.

If the Senior Secured Notes do not meet the public offer test then under the US and UK double tax treaties with Australia there is not any interest withholding tax on interest paid to unrelated US or UK resident financial institutions that are dealing wholly independently with the issuer (except on back-to-back loans).

### ***Gains on Disposition or Redemption of the Senior Secured Notes***

Apart from the exceptions noted below or as covered by the interest withholding regime or the section 128F exemption discussed above, for the purposes of Australian domestic income tax law a non-resident of Australia will generally not be liable for Australian income tax in respect of a gain arising on a disposition of the Senior Secured Notes.

Non-residents who carry on a business of trading in securities (even if that business is not conducted through a permanent establishment in Australia), may be liable for Australian income tax in respect of Australian assessable income represented by the profit arising on the disposal of the Senior Secured Notes if that profit is determined to have a source in Australia (except to the extent that any discount or deferred interest element has been taxed earlier in relation to an Australian permanent establishment of the non-resident). Whether such a profit has a source in Australia will depend upon your specific circumstances. Gains or losses are prima facie calculated in A\$ terms. The rules by which \$US/A\$ variations may be taken into account or in some circumstances excluded are complex, and holders who are potentially affected should seek advice specific to their circumstances. In general, provided the Senior Secured Notes are held outside Australia, in connection with a business conducted exclusively outside Australia and are disposed of to a non-resident directly or to a non-resident through a non-resident agent, the gain should not have a source in Australia.

In certain circumstances a non-resident who is resident in a country with which Australia has a double tax agreement (“DTA”) may not be subject to tax on disposal of its Senior Secured Notes if it derives a “business profit” providing any such profit is not attributable to a business carried on in Australia through a permanent establishment. However, the DTA treatment may differ as between particular countries DTA’s and depending on the particular circumstances of each investor. Therefore, each investor will need to have regard to the specific terms of any applicable double tax agreement.

Where a holder of Senior Secured Notes who is not a resident of Australia and does not hold the Senior Secured Notes in carrying on business at or through a permanent establishment in Australia sells the Senior Secured Notes to either:

- (1) a resident of Australia (not in connection with that resident carrying on a business at or through a permanent establishment outside Australia); or
- (2) to a non-resident of Australia carrying on business in Australia at or through a permanent establishment in Australia where the purchase is in connection with that permanent establishment,

the gain may be deemed to be interest and, unless section 128F applies to the Note as outlined above, may be subject to a 10% withholding tax.

### ***Taxation of Financial Arrangement Amendments***

The Australian Government released exposure draft legislation in December 2005 proposing reforms to the Taxation of Financial Arrangements (TOFA). The draft TOFA measures are wide ranging and if implemented will change both the timing and character of many important items of income and deductions, subject to limited exceptions. It is expected that new rules will only apply to transactions which are put in place or significantly modified after the commencement of the measures. Although a commencement date for these measures has not yet been specified, holders should pay attention to the measures as they progress through the legislative process in case they have an unexpected impact on the taxation implications of holding the Senior Secured Notes.

### ***Other Taxes***

There are not any ad valorem stamp, issue, registration or similar taxes payable in Australia on the issue or transfer of any Senior Secured Notes (except in certain circumstances where the transfer occurs in Australia otherwise than for full market value).

## PLAN OF DISTRIBUTION

Citigroup Global Markets Limited (“Citigroup”) is acting as sole bookrunning manager and initial purchaser of the Offering. Subject to the terms and conditions stated in the Purchase Agreement dated the date of this offering memorandum, Citigroup has agreed to purchase, and FMG Finance has agreed to sell to Citigroup, US\$            in aggregate principal amount of the Fixed Rate Notes and US\$            in aggregate principal amount of the Floating Rate Notes.

The Purchase Agreement provides that the obligations of the initial purchaser to purchase the Senior Secured Notes are subject to approval of legal matters by counsel and to other conditions. The initial purchaser must purchase all the Senior Secured Notes if it purchases any of the Senior Secured Notes.

The Project Group has been advised that the initial purchaser proposes to resell the Senior Secured Notes at the offering price set forth on the cover page of this offering memorandum within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the United States in reliance on Regulation S. See “Notice to Investors.” The price at which the Senior Secured Notes are offered may be changed at any time without notice.

The offering memorandum has not been prepared in accordance with the disclosure requirements set out in the Corporations Act and has not been lodged with ASIC. Accordingly, the Senior Secured Notes may not, subject to certain exceptions, be offered or sold directly or indirectly in or into Australia.

The Senior Secured Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See “Notice to Investors.”

In addition, until 40 days after the commencement of this Offering, an offer or sale of Senior Secured Notes within the United States by a dealer that is not participating in this Offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

The Project Group and Fortescue have agreed that, for a period of 180 days from the date of this offering memorandum, the Project Group and Fortescue will not, without the prior written consent of Citigroup Global Markets Limited, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce the offering of, any debt securities issued or guaranteed by the Project Group or Fortescue.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Senior Secured Notes or the possession, circulation or distribution of this offering memorandum or any other material relating to the Project Group or the Senior Secured Notes in any jurisdiction where action for such purpose is required. Accordingly, the Senior Secured Notes may not be offered or sold directly or indirectly, and neither this offering memorandum nor any other offering material or advertisements in connection with the Senior Secured Notes may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

No prospectus or other disclosure document in relation to the Senior Secured Notes was lodged with the Australian Securities and Investments Commission or the Australian Stock Exchange Limited. The initial purchaser has agreed that it:

- will not make any offer or invitation in or received in Australia in relation to the issue, sale or purchase of any Senior Secured Notes, nor will it sell any Senior Secured Notes in Australia, unless the offeree is required to pay at least A\$500,000 for the Senior Secured Notes or its equivalent in another currency (disregarding amounts if any lent by FMG Finance or another person offering the Senior Secured Notes or its associates, within the meaning of those expressions in Part 6D.2 of the Corporations Act) or it is

otherwise an offer or invitation which by virtue of Section 708 of the Corporations Act does not need disclosure under Part 6D.2 of the Corporations Act;

- will not circulate or issue a disclosure document in Australia, or cause a disclosure document to be received in Australia, which requires lodging under Division 5 of Part 6D.2 of the Corporations Act; and
- will not sell any Senior Secured Notes to any person if, at the time of such sale, its employees involved in such sale knew that, as a result of such sale, the Senior Secured Notes (or an interest in such Senior Secured Notes) were being, or would later be, acquired (directly or indirectly) by a party that FMG Finance has identified to the initial purchaser as one of its Offshore Associates, other than one acting in the capacity of a dealer, manager or underwriter in relation to the placement of the Senior Secured Notes or in the capacity of a clearing house, custodian, funds manager or responsible entity of an Australian registered scheme within the meaning of the Corporations Act.

The initial purchaser has also agreed that:

- It has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) received by it in connection with the issue or sale of the Senior Secured Notes in circumstances in which Section 21(1) of the Financial Services and Markets Act 2000 does not apply to us; and
- it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to the Senior Secured Notes in, from or otherwise involving the United Kingdom.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), an offer of Senior Secured Notes which are the subject of the offering contemplated by this offering memorandum may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any Senior Secured Notes may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (b) any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) by the initial purchasers to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Lead Manager for any such offer; or
- (d) in any (other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of Senior Secured Notes shall result in a requirement for the publication by the Issuer or any initial purchaser of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes this provision, the expression an “offer of Senior Secured Notes to the public” in relation to any Senior Secured Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Senior Secured Notes to be offered so as to enable an investor to decide to purchase any Senior Secured Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

This offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Senior Secured Notes may not be circulated or distributed, nor may the Senior Secured Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (1) an institutional investor under Section 274 of the Securities and Future Act, Chapter 289 of Singapore (the "SFA"), (2) to a relevant person or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA, or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where Senior Secured Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the Senior Secured Notes under Section 275 of the SFA except:

- (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA;
- (2) where no consideration is given for the transfer; or
- (3) by operation of law,

The Senior Secured Notes may not be offered or sold in Hong Kong by means of any document other than to (1) professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong and any rules made thereunder, or (2) in circumstances that do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of the laws of Hong Kong or that do not constitute an offer to the public within the meaning of that Ordinance. No invitation, advertisement or document relating to the Senior Secured Notes may be issued, whether in Hong Kong or elsewhere, that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Senior Secured Notes that are intended to be disposed of only to persons outside Hong Kong or only to professional investors, as defined under the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong and any rule made thereunder.

The Senior Secured Notes have not been and will not be registered under the Securities and Exchange Law at Japan, and may not be offered or sold in Japan or to, or for the account or benefit of, any resident of Japan or to, or for the account or benefit of, any resident for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the Securities and Exchange Law of Japan, and in compliance with the other relevant laws and regulations of Japan.

The Senior Secured Notes will constitute new classes of securities with no established trading market. Application has been made for the listing of the Senior Secured Notes on the Singapore Exchange Securities Trading Limited. The Senior Secured Notes are expected to be eligible for trading in the Portal Market, the National Association of Securities Dealers' screen-based automated market for trading of securities eligible for



resale under Rule 144A. However, the Project Group cannot assure you that the prices at which the Senior Secured Notes will sell in the market after this Offering will not be lower than the initial offering price or that an active trading market for the Senior Secured Notes will develop and continue after this Offering. The initial purchaser has advised the Project Group that they currently intend to make a market in the Senior Secured Notes. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the Senior Secured Notes at any time without notice. In addition, market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, the Project Group cannot assure you as to the liquidity of or the trading market for the Senior Secured Notes.

In connection with this Offering, the initial purchaser may purchase and sell Senior Secured Notes in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves sales of Senior Secured Notes in excess of the principal amount of Senior Secured Notes to be purchased by the initial purchaser in this Offering, which creates a short position for the initial purchaser. Covering transactions involve purchases of the Senior Secured Notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of Senior Secured Notes made for the purpose of preventing or retarding a decline in the market price of the Senior Secured Notes while the Offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the Senior Secured Notes. They may also cause the price of the Senior Secured Notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The initial purchaser may conduct these transactions in the over-the-counter market or otherwise. If the initial purchaser commences any of these transactions, it may discontinue them at any time.

FMG Finance estimates that its portion of the total expenses of this Offering, including fees of the initial purchaser to be paid by Fortescue, will be US\$ . In addition, the Project Group will pay to the initial purchaser a commission equal to US\$ per US\$1,000 principal amount of Senior Secured Notes. Therefore, the initial purchaser will receive in connection with this Offering total commissions of US\$ .

FMG Finance expects to deliver the Senior Secured Notes against payment for the Senior Secured Notes on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the fifth business day following the date of the pricing of the Senior Secured Notes. Since trades in the secondary market generally settle in three business days, purchasers who wish to trade Senior Secured Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Senior Secured Notes initially will settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement.

The initial purchaser has performed investment banking and advisory services for Fortescue and the Project Group from time to time for which the initial purchaser has received customary fees and expenses. The initial purchaser may, from time to time, engage in transactions with and perform services for Fortescue and the Project Group in the ordinary course of their business. In particular, in March 2006, Fortescue entered into a US\$200 million Bridge Loan with Citibank, N.A., as arranger, and a syndicate of investors. For more information on the Bridge Loan, refer to “Management’s Discussion and Analysis—Bridge Loan.” Additionally, Citigroup acted as financial adviser to Fortescue and Chichester in the acquisition by Leucadia of 26,400,000 shares in the capital of Fortescue and of a loan note to be issued by Chichester for US\$100 million.

Fortescue and each of the companies in the Project Group has agreed to jointly and severally indemnify the initial purchaser against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the initial purchaser may be required to make because of any of those liabilities.

## NOTICE TO INVESTORS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of the Senior Secured Notes.

### Offers and Sales by the Initial Purchaser

None of the Senior Secured Notes, the Parent Guarantee or the Project Guarantees have been nor will be registered under the Securities Act and may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any U.S. person, except pursuant to an effective registration statement or in a transaction not subject to the registration requirements of the Securities Act or in accordance with an applicable exemption from the registration requirements thereof. Accordingly, the Senior Secured Notes, the Parent Guarantee and the Project Guarantees are being offered and sold only:

- in the United States to qualified institutional buyers in accordance with Rule 144A under the Securities Act and
- outside the United States in accordance with Regulation S under the Securities Act.

### Investors' Representation and Restrictions on Resale

Each purchaser of the Senior Secured Notes will be deemed, in making its purchase, to have represented and agreed as follows (terms used in this section that are defined in Rule 144A or in Regulation S are used in this section as defined in those rules or regulations):

(1) The purchaser either (a)(1) is a qualified institutional buyer, (2) is aware that the sale of the Senior Secured Notes to it is being made in reliance on Rule 144A and (3) is acquiring such Senior Secured Notes for its own account or the account of one or more other qualified institutional buyers or (b)(1) is a foreign purchaser that is outside the United States (or a foreign purchaser that is a dealer or other fiduciary of the kind referred to above) and (2) is aware that the sale of the Senior Secured Notes to it is being made in reliance on Regulation S;

(2) The purchaser understands that the Senior Secured Notes, the Parent Guarantee and the Project Guarantees have not been registered under the Securities Act and they may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any U.S. person except as set forth below;

(3) It understands and agrees that such Senior Secured Notes are being offered only in a transaction not involving any public offering within the meaning of the Securities Act, and that any future resale, pledge or transfer of such Senior Secured Notes on which the legend set forth below appears, may be made only (i) to Fortescue or FMG Finance, (ii) to a person who the seller reasonably believes is a qualified institutional buyer acquiring for its own account or for the account of one or more other qualified institutional buyers in a transaction meeting the requirements of Rule 144A, (iii) in an offshore transaction meeting the requirements of Rule 903 or Rule 904 of Regulation S under the Securities Act, (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States or other jurisdictions;

(4) The purchaser will, and each subsequent holder is required to, notify any purchaser of Senior Secured Notes from it of the resale restrictions referred to in (2) above, if then applicable;

(5) It understands and agrees that (A) the Senior Secured Notes initially offered to qualified institutional buyers in reliance on Rule 144A will be represented by Restricted Global Notes, and (B) with respect to any transfer of any interest in Restricted Global Notes, (i) if to transferees that take delivery in the form of interests in Restricted Global Notes, the Trustee will not require any written certification from the transferor or the transferee, and (ii) if to transferees that take delivery in the form of interests in the

Regulation S Global Note, the Trustee will require written certification from the transferor (in the form(s) provided in the indenture), the form of which can be obtained from the Trustee, to the effect that the transfer complies with Rule 903 or Rule 904 of Regulation S and that, if such transfer occurs on or prior to 40th day after the later of the commencement of the Offering and the closing date, the interest transferred will be held immediately thereafter through Euroclear or Clearstream;

(6) It understands that the Senior Secured Notes will bear a legend to the following effect unless otherwise agreed by FMG Finance:

“NEITHER THIS SECURITY NOR ANY BENEFICIAL INTEREST HEREIN HAS BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”). THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, AGREES FOR THE BENEFIT OF FMG FINANCE PTY LTD (THE “ISSUER”) THAT THIS SECURITY MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER, (2) SO LONG AS THIS SECURITY IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”), TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A) PURCHASING FOR ITS OWN ACCOUNT OR THE ACCOUNT OF ONE OR MORE OTHER QUALIFIED INSTITUTIONAL BUYERS IN ACCORDANCE WITH RULE 144A, (3) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 (AS APPLICABLE) OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION IN ACCORDANCE WITH RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH SUCH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTIONS. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THIS LEGEND WILL BE REMOVED AFTER THE EXPIRATION OF TWO YEARS FROM THE ORIGINAL ISSUANCE OF THE SECURITY EVIDENCED HEREBY.”

(7) The purchaser acknowledges that Fortescue, the initial purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations, warranties and agreements, and agrees that if any of the acknowledgments, representations or warranties deemed to have been made by it by its purchase of Senior Secured Notes are no longer accurate, it shall promptly notify Fortescue and the initial purchaser. If it is acquiring any Senior Secured Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations, warranties and agreements on behalf of each such account.

Each purchaser of Senior Secured Notes will be deemed to have represented and agreed that it understands that with respect to any transfer of interests in the Regulation S Global Senior Secured Note, on or prior to the 40th day after the later of the commencement of the Offering and the closing date, if to a transferee who takes delivery in the form of an interest in the Restricted Global Note, the Trustee will require written certification from the transferee or transferor, as the case may be, (in the form(s) provided in the indenture) to the effect that (i) such transferee is purchasing the Senior Secured Notes for its own account or for accounts as to which it exercises sole investment discretion and that it and, if applicable, each such account is a qualified institutional buyer within the meaning of Rule 144A, in each case, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction or (ii) the transferor did not purchase such Senior Secured Notes as part of the initial distribution thereof and the transfer is being effected pursuant to and in accordance with an applicable exemption from the registration requirements of the Securities Act and the transferor has delivered to the Trustee such additional evidence that Fortescue, FMG Finance or the Trustee may require as to compliance with such available exemption.

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interests in Global Notes and of Certificated Notes, see “Description of the Senior Secured Notes—Book-Entry, Delivery and Form.”

Fortescue and FMG Finance recognize that none of DTC, Euroclear or Clearstream in any way undertakes to, and none of DTC, Euroclear or Clearstream shall have any responsibility to, monitor or ascertain the compliance of any transactions in the Senior Secured Notes with any exemptions from registration under the Securities Act or of any other state or federal securities law.

## **LEGAL MATTERS**

The validity of the Senior Secured Notes and the guarantees will be passed upon for Fortescue and FMG Finance by their Australian counsel, Clayton Utz. The statements under the headings “Principal Project Agreements”, “Description of Certain Project Approvals and Australian Legal Matters”, “Description of the Collateral” and “Enforcement of Liens”, insofar as they constitute a summary of the provisions of the documents and instruments or the law of the jurisdictions referred to in them, have been reviewed by Clayton Utz, who have expressed the view that those portions fairly summarize the matters referred to in them.

Certain legal matters relating to the Offering will be passed upon for Fortescue and FMG Finance by their U.S. counsel, Jones Day. Certain legal matters relating to the Offering will be passed upon for the initial purchaser by Sullivan & Cromwell, its U.S. counsel, and Freehills, its Australian counsel.

## **INDEPENDENT ACCOUNTANTS**

The audited consolidated financial statements of Fortescue and its subsidiaries as of and for the fiscal years ended June 30, 2006 and 2005 included in this offering memorandum have been audited by BDO Chartered Accountants & Advisers, independent accountants, as stated in their report appearing in this offering memorandum.

## **INDEPENDENT ENGINEER**

Winters, Dorsey & Company, LLC has prepared a report entitled “Pilbara Iron Ore and Infrastructure Project—Technical Review,” (the “Winters Dorsey Report”) dated June 2006, the executive summary of which is included as Appendix B to this offering memorandum. The executive summary of the Winters Dorsey Report is included in this offering memorandum in reliance on such firm as experts in preparing engineering reports for similar projects. The executive summary of the Winters Dorsey Report should be read in its entirety by prospective investors for information with respect to the Project.

## **INDEPENDENT MINING CONSULTANT**

Snowden prepared the Snowden Report included as Appendix A to this offering memorandum. The proved and probable iron ore reserves figures presented in this offering memorandum were prepared by Fortescue and reviewed by Snowden. The mineral resources figures presented in this offering memorandum were prepared by Snowden from information provided by Fortescue. Such figures are included herein in reliance upon the authority of Snowden as an expert in iron ore mining experienced in the evaluation of iron ore resources and reserves. Snowden have given and not withdrawn their consent to the inclusion of their name and all references to them in this offering memorandum.

## **MINING INDUSTRY EXPERT**

CRU Strategies prepared the iron ore mining industry report summarized in the “Industry Overview” section of this offering memorandum, which is included herein in reliance on such firm as experts in the worldwide iron ore mining industry. CRU Strategies have given and not withdrawn their consent to the inclusion of the “Industry Overview” section in this offering memorandum and to the inclusion of their name and all references to them in this offering memorandum.

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## **FORTESCUE METALS GROUP LTD DIRECTORS' REPORT**

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### **DIRECTORS' REPORT**

Your Directors present their report, together with the financial report of Fortescue Metals Group Ltd (the "Company") and its controlled entities ("Fortescue") for the year ended 30 June 2006 and the auditors' report thereon.

### **DIRECTORS**

The names and details of Directors of the Company in office during the financial year and until the date of this report are as follows:

Mr Gordon Toll  
Mr Herb Elliott  
Mr Andrew Forrest  
Mr Graeme Rowley  
Mr Russell Scrimshaw  
Mr Ken Ambrecht

Directors were in office for the entire period.

#### **Names, qualifications, experience and special responsibilities**

##### **Mr Gordon Toll – Chairman – Age 59**

Mr Toll was appointed as a Non Executive Director of the Company in January 2005 and became Chairman in May 2005. He is a member of the Audit Committee. Mr Toll previously held senior executive positions with BHP Billiton Ltd and Rio Tinto plc and in those roles had experience in the development of iron ore projects within the Pilbara region of Western Australia. Mr Toll has been Chairman of Linq Capital Ltd (responsible entity for Linq Resources Fund) since July 2002, Chairman of Eastern Mediterranean Minerals Ltd since May 2005, a Non-Executive Director of Avocet Mining plc since March 2005 and a Non Executive Director of Compass Resources NL since July 2001.

##### **Mr Herb Elliott AC, MBE – Deputy Chairman - Age 68**

Mr Elliott was elected a Non Executive Director of the Company in October 2003 and became Deputy Chairman in May 2005. Mr Elliott is Chairman of the Audit Committee and is a member of the Remuneration Committee. Mr Elliott is also Chairman of Telstra Foundation Limited and a Director of Ansell Limited since February 2001. Previous executive roles include President of PUMA North America. Mr Elliott is the former inaugural Chairman of the National Australia Day Committee and was a Commissioner on the Australian Broadcasting Commission.

##### **Mr Andrew Forrest – Chief Executive Officer – Age 44**

Mr Forrest has been Chief Executive Officer of the Company since April 2003 and was Interim Chairman from then until May 2005. Mr Forrest is Chairman of Moly Mining Ltd (since April 2003) and the Australian Children's Trust. His previous roles include Chairman of Siberia Mining Corporation Limited (now Monarch Ltd), Chief Executive Officer and Deputy Chairman of Anaconda Nickel Limited (now Minara Resources Ltd), Chairman of the Murrin Murrin Joint Venture, Director of the West Australian Chamber of Minerals and Energy and Chairman of Athletics Australia. Mr Forrest has extensive experience in the mining sector with specialist expertise in major project finance.



**FORTESCUE METALS GROUP LTD  
DIRECTORS' REPORT**

**Mr Graeme Rowley AM – Executive Director – Age 66**

Mr Rowley has been Executive Director of Operations of the Company since October 2003. Previously he was an executive with Rio Tinto plc holding senior positions in Hamersley Iron and Argyle Diamonds. Mr Rowley's previous directorships have included the Dampier Port Authority, the Pilbara Development Commission, the Council for the West Pilbara College of TAFE and the Western Australian State Government's Technical Advisory Council. Mr Rowley has extensive experience in operational management of both iron ore ship loading facilities and heavy haul railway within the Pilbara.

**Mr Russell Scrimshaw – Executive Director – Age 57**

Mr Scrimshaw was a Non Executive Director of the Company from October 2003 through to June 2005, at which time he became Executive Director Commercial. Since becoming an Executive Director of the Company, Mr Scrimshaw has relinquished previous Non Executive roles as Chairman of Fusia Ltd, Non Executive Director of Mobilesoft Ltd and a Director of Athletics Australia. He is Chairman of the Remuneration Committee. He is a board member of the Garvan Institute and is an Associate Member of the Australian Society of Certified Practising Accountants. Mr Scrimshaw previously held executive positions within the Commonwealth Bank of Australia, Optus, Alcatel, IBM and Amdahl USA.

**Mr Ken Ambrecht – Non Executive Director – Age 60**

Mr Ambrecht is a Non Executive Director of the Company and is a member of the Audit Committee. Mr Ambrecht is the Managing Director of KCA Associates LLC, which provides investment advisory services. He has been a Non Executive Director of American Financial Capital Inc since April 2005 and Great American Financial Resources Inc since July 2004. Mr Ambrecht was previously Managing Director of First Albany Capital Inc. and a Managing Director of the high yield division of the Royal Bank of Canada following a 25 year career in the capital markets division of Lehman Brothers.

**DIRECTORS' MEETINGS**

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2006, and the numbers of meetings attended by each Director were:

Director	Board Meetings		Committee Meetings			
	A	B	Audit		Remuneration	
			A	B	A	B
Mr Gordon Toll	11	13	2	3	1	2
Mr Herb Elliott	10	13	3	3	3	3
Mr Andrew Forrest	13	13	*	*	*	*
Mr Graeme Rowley	13	13	*	*	*	*
Mr Russell Scrimshaw	11	13	*	*	3	3
Mr Ken Ambrecht	12	13	2	3	*	*

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the committee during the year

\* = Not a member of the relevant committee

The Remuneration Committee also acts as the Nomination Committee.

**FORTESCUE METALS GROUP LTD**  
**DIRECTORS' REPORT**

In addition to the scheduled Board and Committee meetings a number of matters were resolved by circulating Board Resolutions.

<b>Director</b>	<b>No of Circulating Resolutions Eligible</b>	<b>No of Circulating Resolutions Executed</b>
Mr Gordon Toll	3	3
Mr Herb Elliott	3	3
Mr Andrew Forrest	3	3
Mr Graeme Rowley	3	3
Mr Russell Scrimshaw	3	3
Mr Ken Ambrecht	3	3

**COMPANY SECRETARIES' PARTICULARS**

The following people held the position of Company Secretary at the end of the financial year.

**Mr Rod Campbell – Age 46**

Mr Campbell was appointed Joint Company Secretary of the Company in November 2004. Prior to that time Mr Campbell was State Manager Western Australia for RaboBank Australia Ltd and before that was a Senior Manager with State Bank NSW Ltd. Mr Campbell holds a Bachelor of Agricultural Economics from the University of New England and a Diploma from the Securities Institute of Australia.

**Mr Christopher Catlow – Age 45**

Mr Catlow has been Chief Financial Officer of the Company since September 2003 and Company Secretary since November 2003. Mr Catlow has extensive experience in the resources sector, having previously been a Director of Consolidated Rutile Ltd and Sierra Rutile Ltd. He was also Executive General Manager Finance of Iluka Resources Limited and Chief Financial Officer of Energy Equity Corporation Limited and Gold Fields Australia Pty Ltd. Mr Catlow is a Fellow of the Institute of Chartered Accountants in Australia.

**PRINCIPAL ACTIVITIES**

The principal activity of the Company during the course of the financial year was the development of the Pilbara Iron Ore and Infrastructure Project.

**RESULTS FROM OPERATIONS**

The results from operations are as follows.

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Operating loss after income tax	(2,145,701)	(4,518,645)
Total assets	221,048,135	148,342,886
Net assets	137,106,130	59,440,751

*Summary of financial position*

Fortescue's financial position improved significantly during 2006, with net assets increasing 131% to \$137.1 million. The improvement was attributable to an increase in total assets of \$72.7 million comprised primarily of increases in exploration and evaluation expenditure, partially offset by lower cash balances held at 30 June 2006.

## **FORTESCUE METALS GROUP LTD DIRECTORS' REPORT**

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### **DIVIDENDS**

No dividends have been paid or declared by the Company to members since the end of the previous financial year and the Directors do not recommend the payment of a dividend in respect of the current financial year.

### **REVIEW OF OPERATIONS**

The highlights of the Company's operations during the year were:

- ongoing development of the Pilbara Iron Ore and Infrastructure Project with focus on the progression of the Definitive Feasibility Study;
- delineation of further resources within the Company's Chichester Range deposits through the completion of exploration and infill drilling programs;
- continuing development of the Company's iron ore marketing program targeting key customers in China, Japan, Korea and Europe;

### **ENVIRONMENTAL REGULATIONS**

In the course of its normal mining and exploration activities Fortescue adheres to environmental regulations imposed upon it by the various regulatory authorities, particularly those regulations relating to ground disturbance and the protection of rare and endangered flora and fauna. The Company has complied with all material environmental requirements up to the date of this report.

### **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

At the Company's Annual General Meeting held on 8 November 2005 members approved the de-merger of Allied Medical Limited through an "in specie" distribution of shares to the Company's shareholders as at the record date of 23 November 2005.

Allied Medical Limited distributes medical products and is not part of Fortescue's core business model. For the purposes of the de-merger, the Directors valued Allied Medical Limited at \$880,000. The in specie share distribution was transacted with the placement of 4,400,000 shares valued at 20 cents per share.

Fortescue and the Company have prepared financial statement in accordance with the Australian Equivalents to International Financial Reporting Standards ("AIFRS") from 1 July 2004. In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the Company and Fortescue's accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Fortescue to be prepared in accordance with AIFRS.

Other than the de-merger of Allied Medical Limited and the first time adoption of AIFRS there have been no significant changes in the state of affairs of Fortescue either during or since the end of the financial year.

**FORTESCUE METALS GROUP LTD**  
**DIRECTORS' REPORT**

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**AFTER BALANCE DATE EVENTS**

*(i) Capital raising*

On 15 July 2006 Leucadia National Corporation signed a Subscription Agreement to invest US\$400 million in Fortescue. Leucadia will receive 26.4 million shares in the Company and US\$100 million of Secured Subordinated Loan Notes upon financial close, which occurs when US\$2 billion of secured debt and lease facilities have been established. The Notes have a 13 year term, a zero fixed interest rate and a variable interest rate equal to 4% of the revenue, net of government royalties received from the sale of iron ore from Cloud Break and Christmas Creek.

*(ii) Syndicated loan*

The Company has drawn down an additional US\$100 million subsequent to year end.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

**FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES**

In the opinion of the Directors it may prejudice the interests of the Company to provide additional information (except as reported in this Directors' Report), in relation to future developments and business strategies of the operations of the Company and the expected results of those operations in subsequent financial years.

**DIRECTORS' INTERESTS**

The relevant interest of each Director in the shares and options issued by the Company, as notified by the Directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

<b>Director</b>	<b>Ordinary Shares</b>
Mr Gordon Toll	750,000
Mr Herb Elliott	550,000
Mr Andrew Forrest	102,307,830
Mr Graeme Rowley	2,147,569
Mr Russell Scrimshaw	1,077,600
Mr Ken Ambrecht	750,000

No Directors held options during the year.

**FORTESCUE METALS GROUP LTD  
DIRECTORS' REPORT**

**SHARE OPTIONS**

**Options granted to Directors and officers of the Company**

During or since the end of the financial year, the Company did not grant options to Directors. During this period the Company granted options for no consideration over unissued ordinary shares in the Company to the following five most highly remunerated officers and other key management personnel (collectively called "Key Management Personnel") of the Company as part of their remuneration:

<b>Five most highly remunerated officers</b>	<b>Number of options granted</b>	<b>Exercise price</b>	<b>Expiry date</b>
Mr Alan Walling	-	-	-
Mr Peter Thomas	25,000	\$5.69	25 January 2011
Mr John Clout	30,000	\$7.03	1 June 2011
Mr Christopher Catlow	100,000	\$5.69	25 January 2011
Mr Julian Tapp	40,000	\$5.69	25 January 2011
<b>Other key management personnel</b>			
Mr Bill Ramsey	100,000	\$5.69	25 January 2011

All options were granted during the financial year. No options have been granted since the end of the financial year.

**Unissued Shares Under Options**

The number of options on issue at the date of this report is as follows. All of these options are unlisted.

<b>Number of Options</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
2,000,000	\$2.67	31 December 2009
430,000	\$5.69	25 January 2011
500,000	\$7.03	1 June 2011

These options were issued pursuant to the Company's Employee Incentive Option Scheme and have been allotted to individuals on condition that they serve specified time periods as an employee of the Company before becoming entitled to exercise the options. These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

**Shares Issued on Exercise of Options**

During the financial year, the Company did not issue ordinary shares as a result of the exercise of options. Post financial year end 22,500 shares were issued as a result of the conversion of employee options with an exercise price of \$2.67.

**DIRECTORS AND OFFICERS INSURANCES**

Since the end of the previous financial year, the Company has paid premiums of \$135,420 to insure the Directors and officers of Fortescue.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of Fortescue, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to Fortescue. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

## **FORTESCUE METALS GROUP LTD REMUNERATION REPORT**

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### **PRINCIPLES OF COMPENSATION**

The objective of Fortescue's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good governance practices:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage / alignment of executive compensation
- Transparency
- Capital management

In consultation with external remuneration consultants, Fortescue has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholder's interests:

- Has economic profit as a core component of plan design
- Focuses on sustained growth in share price and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- Attracts and retains high calibre executives

Alignment to program participants' interests:

- Rewards capability and experience
- Reflects competitive reward for contribution to shareholder growth
- Provides a clear structure for earning rewards
- Provides recognition for contribution

### **Fixed Compensation**

Fixed compensation consists of base compensation as well as employer contributions to superannuation funds.

### **Performance-Linked Compensation**

Performance-linked compensation includes long-term incentives designed to reward key management personnel for growth in shareholder wealth. The long term incentive ("LTI") is provided as options over ordinary shares of the Company under the rules of the Fortescue Metals Group Incentive Option Scheme ("FMGIOS"). The change in share price is the key performance criteria for the LTI plan as the realised value arising from options issued under the FMGIOS is dependent upon an increase in the share price to above the exercise price of the options.

The success of Fortescue's management team can be determined by their ability to improve the value of the company and achieve KPI's set by the board. The Remuneration Committee considers that fixed compensation combined with the current LTI component is generating the desired outcomes at this stage.

### **Consequences of performance on shareholders wealth**

In considering Fortescue's performance and benefits for shareholders wealth, the Remuneration Committee have regard to the following indices in respect of the current financial year and the previous four financial years.

**FORTESCUE METALS GROUP LTD  
REMUNERATION REPORT**

**PRINCIPLES OF COMPENSATION (continued)**

	<b>2006 AIFRS</b>	<b>2005 AIFRS</b>	<b>2004 AGAAP</b>	<b>2003 AGAAP</b>	<b>2002 AGAAP</b>
Revenue	\$12,664,427	\$3,438,050	\$4,266,567	\$1,753,422	\$1,910,539
Net profit/ (loss)	(\$2,145,701)	(\$4,518,645)	\$601,586	(\$834,241)	(\$298,276)
Dividends paid	-	-	-	-	-
Change in share price	\$6.60	\$2.85	\$0.30	\$0.12	(\$0.05)

The overall level of key management personnel's compensation takes into account the performance of Fortescue over a number of years.

**Service agreements**

Remuneration and other terms of employment for the Executive Directors and other Key Management Personnel are formalised in a service agreement. The major provisions of the agreements relating to remuneration are set out below.

Mr Andrew Forrest, *Chief Executive Officer*

- Term of agreement – 16 April 2007
- Base salary, inclusive of superannuation, for the year ended 30 June 2006 of \$110,000, to be reviewed annually by the Remuneration Committee.

Mr Graeme Rowley, *Executive Director Operations*

- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2006 of \$380,000 to be reviewed annually by the Remuneration Committee.

Mr Russell Scrimshaw, *Executive Director Commercial*

- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2006 of \$250,000 to be reviewed annually by the Remuneration Committee.

Mr Alan Watling, *Head of Infrastructure*

- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2006 of \$300,000, to be reviewed annually by the Remuneration Committee.

Mr Peter Thomas, *Chief Financial Officer of The Pilbara Infrastructure Pty Ltd (subsidiary)*

- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2006 of \$270,000, to be reviewed annually by the Remuneration Committee.

Mr John Clout, *Head of Resource Strategy*

- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2006 of \$200,000, to be reviewed annually by the Remuneration Committee.

Mr Christopher Catlow, *Chief Financial Officer/Joint Company Secretary*

- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2006 of \$300,000, to be reviewed annually by the Remuneration Committee.

**FORTESCUE METALS GROUP LTD**  
**REMUNERATION REPORT**

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**PRINCIPLES OF COMPENSATION (continued)**

Mr Julian Tapp, *Head of Government Relations*

- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2006 of \$230,000, to be reviewed annually by the Remuneration Committee.

Mr Bill Ramsey, *Project Director*

- Term of agreement – Unspecified
- Base salary, inclusive of superannuation, for the year ended 30 June 2006 of \$200,000, to be reviewed annually by the Remuneration Committee.

All service agreements do not provide termination payments and are able to be terminated on one months' notice.

*Non Executive Directors*

Total compensation for all Non Executive Directors, last voted upon by shareholders at the 2005 AGM, is not to exceed \$500,000 per annum and is set based on advice from external advisors with reference to the fees paid to other Non Executive Directors of comparable companies. Directors' base fees are presently up to \$40,000 per annum.

The Chairperson receives \$162,000 per annum. The Deputy Chairperson receives \$46,000 per annum. Non Executive Directors do not receive performance related compensation. Directors' fees cover all main Board activities. Non Executive Directors who sit on a Board Committee receive an additional \$4,000 per annum per committee.



**FORTESCUE METALS GROUP LTD  
REMUNERATION REPORT**

**DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION (COMPANY AND CONSOLIDATED)**

Details of the nature and amount of each major element of remuneration of each Director of the Company and other Key Management Personnel of Fortescue are:

		Short-term			Post-employment Super-annuation benefits \$	Other long term \$	Termination benefits	Share-based payments		Proportion of remuneration performance related %	Value of options as proportion of remuneration %	
		Salary & fees \$	Cash bonus \$	Non- monetary benefits \$				Total \$	Options (A) \$			Total \$
<b>Directors</b> <i>Non Executive</i> Mr G Toll (Chairperson)	2006	166,000	-	-	-	-	-	-	166,000	-	-	-
	2005	64,000	-	-	-	-	-	-	64,000	-	-	-
	2006	51,376	-	-	4,624	-	-	-	56,000	-	-	-
	2005	-	-	-	-	-	-	-	53,059	-	-	100%
	2006	44,000	-	-	-	-	-	-	44,000	-	-	-
2005	-	-	-	-	-	-	-	53,059	-	-	100%	
2005	-	-	-	-	-	-	-	53,059	-	-	100%	
<i>Executive</i> Mr A Forrest, CEO	2006	100,000	-	-	10,000	-	-	-	110,000	-	-	-
	2005	100,000	-	-	10,000	-	-	-	110,000	-	-	-
	2006	345,454	-	-	34,546	-	-	-	380,000	-	-	-
	2005	182,000	-	-	18,200	-	-	-	200,200	-	-	-
	2006	225,000	-	-	25,000	-	-	-	250,000	-	-	-
2005	55,046	-	-	4,954	-	-	-	53,059	-	-	47%	

**FORTESCUE METALS GROUP LTD  
REMUNERATION REPORT**

**DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION (COMPANY AND CONSOLIDATED) continued**

		Short-term			Post-employment Super-annuation benefits \$	Other long term \$	Termination benefits	Share-based payments		Proportion of remuneration performance related %	Value of options as proportion of remuneration %
		Salary & fees \$	Cash bonus \$	Non-monetary benefits \$				Total \$	Options \$		
<b>5 Most Highly Remunerated Executives</b>											
	2006	272,727	150,000	-	422,727	27,273	-	98,258	548,258	-	18%
	2005	156,916	-	-	156,916	15,692	-	8,076	180,684	-	4%
	2006	245,453	75,757	-	321,210	32,121	-	105,644	458,975	-	23%
	2005	75,003	-	-	75,003	7,500	-	7,672	90,175	-	9%
	2006	172,725	-	-	172,725	18,182	-	77,265	268,172	-	29%
	2005	133,761	-	-	133,761	13,376	-	4,442	151,579	-	3%
	2006	272,727	-	-	272,727	27,273	-	49,194	349,194	-	14%
	2005	163,000	-	-	163,000	16,300	-	-	179,300	-	-
	2006	209,091	-	-	209,091	20,909	-	68,807	298,807	-	23%
	2005	120,000	-	-	120,000	12,000	-	4,038	136,038	-	3%
<b>Other Key Management Personnel</b>											
	2006	178,974	-	-	178,974	17,897	-	49,194	246,065	-	20%
	2005	-	-	-	-	-	-	-	-	-	-
	2006	2,283,527	225,757	-	2,509,284	217,825	-	448,362	3,175,471	-	-
	2005	1,049,726	-	-	1,049,726	98,022	-	236,464	1,384,212	-	-

All key management personnel are employed by the parent entity.

**FORTESCUE METALS GROUP LTD  
REMUNERATION REPORT**

**Notes in relation to the table of Directors and other Key Management Personnel's remuneration**

- (a) The fair value of the options is calculated at the date of grant using the Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account.

The following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield
28 November 2003	28 November 2006	\$0.30	\$0.50	\$0.50	26.40%	5.75%	-
28 November 2003	28 November 2006	\$0.26	\$0.75	\$0.50	26.40%	5.75%	-
28 November 2003	28 November 2006	\$0.23	\$1.00	\$0.50	26.40%	5.75%	-
1 June 2005	31 December 2009	\$1.97	\$2.67	\$2.67	26.40%	5.75%	-
25 January 2006	25 January 2011	\$4.60	\$5.69	\$6.15	26.80%	5.13%	-
1 June 2006	1 June 2011	\$5.79	\$7.03	\$7.68	26.80%	5.75%	-

**EQUITY INSTRUMENTS**

All options refer to options over ordinary shares of the Company, which are exercisable on a one-for-one basis under the FMGIOS.

**Options over equity instruments granted as compensation**

Details on options over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on options that were vested during the reporting period are as follows:

Executives	Number of options granted during 2006	Grant date	Number of options vested during 2006	Fair value of options granted during 2006	Exercise price of options granted during 2006	Expiry date of options granted during 2006
Mr A Watling	-	-	50,000	-	-	-
Mr P Thomas	25,000	25 January 2006	47,500	\$4.60	\$5.69	25 January 2011
Mr J Clout	30,000	1 June 2006	37,500	\$5.79	\$7.03	1 June 2011
Mr C Catlow	100,000	25 January 2006	-	\$4.60	\$5.69	25 January 2011
Mr J Tapp	40,000	25 January 2006	25,000	\$4.60	\$5.69	25 January 2011
Mr B Ramsey	100,000	25 January 2006	-	\$4.60	\$5.69	25 January 2011

No Directors held options during the year.

No options have been granted since the end of the financial year. The options were provided at no cost to the recipients.

All options expire on the earlier of their expiry date or termination of the individual's employment. The options are exercisable on an annual basis four years from grant date.

**Modification of terms of equity-settled share-based payment transactions**

No terms of equity-settled share-based payment transactions (including options granted as compensation to a key management person) have been altered or modified by the Company during the reporting period.

**Exercise of options granted as compensation**

During the financial year, the Company did not issue ordinary shares as a result of the exercise of options. Post financial year end 22,500 shares were issued as a result of the conversion of employee options with an exercise price of \$2.67.

**FORTESCUE METALS GROUP LTD  
REMUNERATION REPORT**

**Analysis of options over equity instruments granted as compensation**

Details of the vesting profile of the options granted as remuneration to each Director of the Company and Key Management Personnel is detailed below.

	Options granted Number	Options granted Date	% vested in year	Forfeited in year	Financial years in which grant vests	Value yet to vest \$	
						Min	Max (A)
<b>5 Most Highly Remunerated</b>							
Mr A Watling	200,000	June 2005	25%	-	(B)	-	286,698
Mr P Thomas	190,000	June 2005	25%	-	(B)	-	272,363
Mr P Thomas	25,000	January 2006	-	-	(B)	-	102,802
Mr J Clout	150,000	June 2005	25%	-	(B)	-	215,024
Mr J Clout	30,000	June 2006	-	-	(B)	-	170,219
Mr C Catlow	100,000	January 2006	-	-	(B)	-	411,210
Mr J Tapp	100,000	June 2005	25%	-	(B)	-	143,349
Mr J Tapp	40,000	January 2006	-	-	(B)	-	164,484
<b>Other Key Management Personnel</b>							
Mr B Ramsey	100,000	January 2006	-	-	(B)	-	411,210

No Directors held options during the year.

- (A) The maximum value of options yet to vest is not determinable as it depends on the market price of shares of the Company on the Australian Stock Exchange at the date the option is exercised. These share prices represent a maximum price included in the volatility assumptions within the valuation of the options.
- (B) The options were issued pursuant to the FMGIOS and may be exercised 25% after one year, 50% after two years, 75% after three years and in full after four years from grant date.

**Analysis of movements in options**

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each Key Management Person is detailed below. No Directors held options during the year.

	Value of Options			Total option value in year \$
	Granted in year \$ (A)	Exercised in year \$	Forfeited in year \$	
Mr Alan Watling	-	-	-	-
Mr Peter Thomas	115,101	-	-	115,101
Mr John Clout	173,790	-	-	173,790
Mr Chris Catlow	460,404	-	-	460,404
Mr Julian Tapp	184,161	-	-	184,161
Mr Bill Ramsey	460,404	-	-	460,404

- (A) The value of options granted in the year is the fair value of the options calculated at grant date using the Black-Scholes model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.

**FORTESCUE METALS GROUP LTD**  
**DIRECTORS' REPORT**

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**NON-AUDIT SERVICES**

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with Fortescue is important.

Details of the amounts paid or payable to the auditor (BDO Chartered Accountants & Advisers) for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms.

<b>Amounts received or due and receivable by auditors for:</b>	<b>Consolidated</b>	
	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Audit Services		
BDO Chartered Accountants & Advisers	56,715	40,514
Financial due diligence		
BDO Chartered Accountants & Advisers	107,261	-
Total Remuneration	<u>163,976</u>	<u>40,514</u>

**Auditors' Independence Declaration**

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 17.

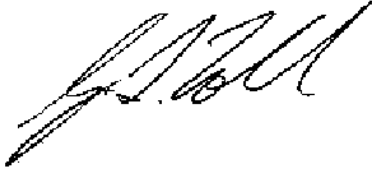
**AUDITOR**

BDO Chartered Accountants & Advisers continues in office in accordance with section 327 of the *Corporations Act 2001*.

**FORTESCUE METALS GROUP LTD**  
**DIRECTORS' REPORT**

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This report is made in accordance with a resolution of the Directors.



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**Gordon Toll**  
Chairman

Dated at Perth this 18<sup>th</sup> day of July 2006.

**FORTESCUE METALS GROUP LTD  
AUDITOR'S INDEPENDENCE DECLARATION**

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Chartered Accountants  
& Advisers

Level 8, 290 St George's Terrace Perth WA 6000  
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18 July 2006

The Directors  
Fortescue Metals Group Ltd  
PO Box 910  
WEST PERTH WA 6872

**DECLARATION OF INDEPENDENCE BY BDO TO THE DIRECTORS OF FORTESCUE  
METALS GROUP LIMITED**

To the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit;  
and
- any applicable code of professional conduct in relation to the audit.

Yours faithfully  
**BDO**  
Chartered Accountants

**BG McVeigh**  
Partner



BDO is a national association of  
separate partnerships and entities

**FORTECUE METALS GROUP LTD**  
**INCOME STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

	Note	Consolidated		Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
Revenue from ordinary activities		834,276	1,746,572	-	-
Revenue from outside ordinary activities		-	-	-	1,721
<b>Total Revenue</b>	3	<b>834,276</b>	<b>1,746,572</b>	<b>-</b>	<b>1,721</b>
Cost of sales		(525,834)	(1,117,215)	-	-
Personnel expense	4	(4,588,813)	(2,241,529)	(4,434,328)	(1,790,614)
Financial income	6	11,830,151	1,691,478	11,828,132	1,722,726
Financial expenses	6	(6,542,596)	(2,909,000)	(6,542,596)	(2,909,000)
Other expenses	5	(2,645,585)	(1,688,951)	(2,585,726)	(1,515,661)
Loss before tax		(1,638,401)	(4,518,645)	(1,734,518)	(4,490,828)
Income tax expense	8	-	-	-	-
Loss from continuing operations		(1,638,401)	(4,518,645)	(1,734,518)	(4,490,828)
Loss on sale of discontinued operation net of tax	7	(507,300)	-	-	-
<b>Loss for the year</b>		<b>(2,145,701)</b>	<b>(4,518,645)</b>	<b>(1,734,518)</b>	<b>(4,490,828)</b>
Loss attributable to members of the Parent Entity		<u>(2,145,701)</u>	<u>(4,518,645)</u>	<u>(1,734,518)</u>	<u>(4,490,828)</u>
Basic earnings per share (cents)	25	(0.96)	(2.58)		
Diluted earnings per share (cents)	25	N/A	N/A		

The income statements are to be read in conjunction with the notes to the financial statements.



**FORTESCUE METALS GROUP LTD**  
**BALANCE SHEETS**  
**AS AT 30 JUNE 2006**

	Note	Consolidated		Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	9	18,054,207	81,158,375	18,054,205	81,040,753
Trade and other receivables	10	1,372,472	1,112,872	1,372,472	788,407
Inventories	11	-	137,413	-	-
Financial assets	12	322,723	2,723	322,723	2,723
Other current assets	13	161,231	60,356	161,231	60,356
<b>Total Current Assets</b>		<b>19,910,633</b>	<b>82,471,739</b>	<b>19,910,631</b>	<b>81,892,239</b>
<b>NON-CURRENT ASSETS</b>					
Trade and other receivables	14	14,323,479	1,334,824	18,989,391	6,000,736
Exploration and evaluation expenditure	15	182,914,456	63,337,525	178,248,144	58,671,213
Property, plant and equipment	17	3,873,567	1,172,798	3,873,567	1,166,756
Other financial assets	18	26,000	26,000	26,402	26,403
<b>Total Non-Current Assets</b>		<b>201,137,502</b>	<b>65,871,147</b>	<b>201,137,504</b>	<b>65,865,108</b>
<b>Total Assets</b>		<b>221,048,135</b>	<b>148,342,886</b>	<b>221,048,135</b>	<b>147,757,347</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	19	16,674,415	9,548,573	16,674,415	9,374,217
<b>Total Current Liabilities</b>		<b>16,674,415</b>	<b>9,548,573</b>	<b>16,674,415</b>	<b>9,374,217</b>
<b>NON-CURRENT LIABILITIES</b>					
Interest-bearing loans and borrowings	20	67,267,590	67,719,562	67,267,590	67,719,562
Deferred tax liabilities	22	-	11,634,000	-	11,634,000
<b>Total Non-Current Liabilities</b>		<b>67,267,590</b>	<b>79,353,562</b>	<b>67,267,590</b>	<b>79,353,562</b>
<b>Total Liabilities</b>		<b>83,942,005</b>	<b>88,902,135</b>	<b>83,942,005</b>	<b>88,727,779</b>
<b>NET ASSETS</b>		<b>137,106,130</b>	<b>59,440,751</b>	<b>137,106,130</b>	<b>59,029,568</b>
<b>EQUITY</b>					
Issued capital		147,153,101	69,475,651	147,153,101	69,475,651
Reserves		2,907,217	773,587	2,907,217	773,587
Accumulated losses		(12,954,188)	(10,808,487)	(12,954,188)	(11,219,670)
<b>TOTAL EQUITY</b>		<b>137,106,130</b>	<b>59,440,751</b>	<b>137,106,130</b>	<b>59,029,568</b>

The balance sheets are to be read in conjunction with the notes to the financial statements.

**FORTESCUE METALS GROUP LTD**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

	Note	Consolidated		Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers		834,276	1,662,547	-	-
Exploration and evaluation expenditure		(124,316,798)	(46,704,816)	(124,316,798)	(46,704,816)
Interest received		2,219,214	1,381,092	2,217,195	1,376,554
Payments to suppliers and employees		(7,847,761)	(4,701,631)	(7,031,059)	(2,962,037)
Net cash used in operating activities	28(a)	(129,111,069)	(48,362,808)	(129,130,662)	(48,290,299)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Payments for purchase of plant and equipment		(3,395,704)	(1,002,788)	(3,395,704)	(1,002,788)
Loans to other entities		-	(1,138,182)	-	(1,138,182)
Cash lost on disposal of Allied Medical Ltd	7(d)	(137,213)	-	-	-
Net cash used in investing activities		(3,532,917)	(2,140,970)	(3,395,704)	(2,140,970)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from the issue of share capital		-	75,277,383	-	75,277,383
Proceeds from borrowings		67,267,590	49,175,882	67,267,590	49,175,882
Net cash from financing activities		67,267,590	124,453,265	67,267,590	124,453,265
Net increase in cash and cash equivalents		(65,376,396)	73,949,487	(65,258,776)	74,021,996
Cash at 1 July		81,158,375	5,330,037	81,040,753	5,139,906
Effect of exchange rate changes on cash held		2,272,228	1,878,851	2,272,228	1,878,851
Cash at 30 June	9	18,054,207	81,158,375	18,054,205	81,040,753

The statements of cash flows are to be read in conjunction with the notes to the financial statements.

**FORTESCUE METALS GROUP LTD**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2006**

<b>Consolidated</b>	<b>Issued Capital</b>	<b>Accumulated losses</b>	<b>Reserves</b>	<b>Total Equity</b>
	\$	\$	\$	\$
Opening balance at 1 July 2004	20,355,255	(6,289,842)	-	14,065,413
Net loss for the period	-	(4,518,645)	-	(4,518,645)
Total recognised income and expense for the year	-	(4,518,645)	-	(4,518,645)
<b>Transactions with equity holders in their capacity as equity holders:</b>				
Issue of share capital	14,140,509	-	-	14,140,509
Exercise of options	8,016,405	-	-	8,016,405
Distribution to option holders	(181,800)	-	-	(181,800)
Convertible notes conversion to equity	53,386,282	-	-	53,386,282
Adjustment to valuation of equity component of convertible notes	(14,607,000)	-	-	(14,607,000)
Deferred tax liability on equity portion of convertible notes	(11,634,000)	-	-	(11,634,000)
Equity settled share based payment transactions	-	-	773,587	773,587
	49,120,396	-	773,587	49,893,983
Closing balance at 30 June 2005	69,475,651	(10,808,487)	773,587	59,440,751

<b>Consolidated</b>	<b>Issued Capital</b>	<b>Accumulated losses</b>	<b>Reserves</b>	<b>Total Equity</b>
	\$	\$	\$	\$
Opening balance at 1 July 2005	69,475,651	(10,808,487)	773,587	59,440,751
Revaluation of property, plant and equipment	-	-	879,999	879,999
Net income recognised directly in equity	-	-	879,999	879,999
Net loss for the period	-	(2,145,701)	-	(2,145,701)
Total recognised income and expense for the year	-	(2,145,701)	879,999	(1,265,702)
<b>Transactions with equity holders in their capacity as equity holders:</b>				
Issue of share capital	76,797,450	-	-	76,797,450
Distribution in specie due to Allied Medical Ltd de-merger	880,000	-	-	880,000
Equity settled share based payment transactions	-	-	1,253,631	1,253,631
	77,677,450	-	1,253,631	78,931,081
Closing balance at 30 June 2006	147,153,101	(12,954,188)	2,907,217	137,106,130

Amounts are stated net of tax.

The statements of changes in equity are to be read in conjunction with the notes to the financial statements.

**FORTESCUE METALS GROUP LTD**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2006**

<b>Company</b>	<b>Issued Capital</b> \$	<b>Accumulated losses</b> \$	<b>Reserves</b> \$	<b>Total Equity</b> \$
Opening balance at 1 July 2004	20,355,255	(6,728,842)	-	13,626,413
Net loss for the period	-	(4,490,828)	-	(4,490,828)
Total recognised income and expense for the year	-	(4,490,828)	-	(4,490,828)
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital	14,140,509	-	-	14,140,509
Exercise of options	8,016,405	-	-	8,016,405
Distribution to option holders	(181,800)	-	-	(181,800)
Convertible notes conversion to equity	53,386,282	-	-	53,386,282
Adjustment to valuation of equity component of convertible notes	(14,607,000)	-	-	(14,607,000)
Deferred tax liability on equity portion of convertible notes	(11,634,000)	-	-	(11,634,000)
Equity settled share based payment transactions	-	-	773,587	773,587
	49,120,396	-	773,587	49,893,983
Closing balance at 30 June 2006	69,475,651	(11,219,670)	773,587	59,029,568

<b>Company</b>	<b>Issued Capital</b> \$	<b>Accumulated losses</b> \$	<b>Reserves</b> \$	<b>Total Equity</b> \$
Opening balance at 1 July 2005	69,475,651	(11,219,670)	773,587	59,029,568
Revaluation of property, plant and equipment	-	-	879,999	879,999
Net income recognised directly in equity	-	-	879,999	879,999
Net loss for the period	-	(1,734,518)	-	(1,734,518)
Total recognised income and expense for the year	-	(1,734,518)	879,999	(854,519)
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital	76,797,450	-	-	76,797,450
Distribution in specie due to Allied Medical Ltd de-merger	880,000	-	-	880,000
Equity settled share based payment transactions	-	-	1,253,631	1,253,631
	77,677,450	-	1,253,631	78,931,081
Closing balance at 30 June 2006	147,153,101	(12,954,188)	2,907,217	137,106,130

Amounts are stated net of tax.

The statements of change in equity are to be read in conjunction with the notes to the financial statements.

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

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**NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report includes separate financial statements for Fortescue Metals Group Ltd as an individual parent entity (the "Company") and the consolidated entity consisting of Fortescue Metals Group Ltd and its subsidiaries ("Fortescue"). Fortescue Metals Group Ltd is a company limited by shares, incorporated and domiciled in Australia.

The financial report complies with all Australian equivalents to International Financial Reporting Standards ("AIFRS") in their entirety.

The following is a summary of the material accounting policies adopted by Fortescue in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**Basis of Preparation**

*First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

Fortescue and the Company have prepared financial statement in accordance with the Australian Equivalents to International Financial Reporting Standards ("AIFRS") from 1 July 2005. In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the Company and Fortescue's accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Fortescue to be prepared in accordance with AIFRS.

The accounting policies set out below have been consistently applied to all years presented. Changes in accounting policies related to first-time adoption of AIFRS are disclosed in note 35.

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in note 2 to this report.

*Reporting Basis and Conventions*

The financial report has been prepared on an accruals basis and is based on historical costs.

**Accounting policies**

**(a) Principles of Consolidation**

A controlled entity is any entity the Company has the power to control the financial and operating policies of so as to obtain benefits from its activities. A list of controlled entities is contained in note 16 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in Fortescue, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the Company.

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

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**NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Where controlled entities have entered or left Fortescue during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, Fortescue's share of the post-acquisition profits or losses of associates is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are those entities over which Fortescue exercises significant influence, but not control.

**(b) Mineral Exploration and Evaluation Expenditure**

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence or otherwise of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

**(c) Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

**(d) Foreign Currency Transactions**

The functional currency of each of Fortescue's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the Company's functional and presentation currency.

Transactions in foreign currencies have been converted at rates of exchange ruling on the date of those transactions. At balance date, amounts receivable and payable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Realised and unrealised gains and losses are brought to account in determining the profit or loss for the financial year.

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

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**NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(e) Revenue Recognition**

Revenue from the sale of goods and disposal of other assets is recognised when Fortescue has passed control of the goods or other assets to the buyer.

**(f) Income Tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

*Tax consolidation legislation*

Fortescue has implemented the tax consolidation legislation as of 1 July 2003.

The head entity, Fortescue Metals Group Ltd, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements within the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group.

Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

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**NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(g) Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

**(h) Acquisitions of Assets**

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition. Where shares are issued in an acquisition, the value of the shares is determined by reference to the fair value of the assets acquired, including goodwill where applicable.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value at the date of acquisition. The discount rate used is the rate at which a similar borrowing could be obtained under comparable terms and conditions.

Where the fair value of the identifiable net assets acquired, including any liability for restructuring costs, exceeds the cost of acquisition, the difference, representing a discount on acquisition, is accounted for by reducing proportionately the fair values of the non-monetary assets acquired until the discount is eliminated.

**(i) Impairment of Assets**

At each reporting date, Fortescue reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, Fortescue estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**(k) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

**(j) Inventories**

Inventories are measured at the lower of cost and net realisable value.

**(k) Investments and other financial assets**

*Recognition*

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights and obligations exist. Subsequent to initial recognition these instruments are measured as set out below.



**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

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**NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Loans and receivables*

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

*Held-to-maturity investments*

These investments have fixed maturities, and it is Fortescue's intention to hold investments to maturity. Any held-to-maturity investments held by Fortescue are stated at amortised cost using the effective interest rate method.

*Available-for-sale financial assets*

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

*Financial liabilities*

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

*Fair value*

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

*Impairment*

At each reporting date, Fortescue assesses whether there is objective evidence that a financial instrument has been impaired, in the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

**(l) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by Fortescue is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined using valuation techniques. Fortescue uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to Fortescue for similar financial instruments.

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

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

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

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**NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Assets*

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The carrying amount of plant and equipment is reviewed annually by Directors 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 that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present value in determining recoverable amount.

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 Fortescue and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

*Depreciation*

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Buildings	25-40 years
- Machinery	10-15 years
- Vehicles	3-5 years
- Furniture, fittings and equipment	3-8 years

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 [note 1(i)].

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Fortescue's policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

**(n) Trade and other payables**

These amounts represent liabilities for goods and services provided to Fortescue prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

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**NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(o) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**(p) Borrowing costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

**(q) Provisions**

Provisions for legal claims are recognised when: Fortescue has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

**(r) Employee benefits**

*(i) Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables and accruals in respect of employees services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

*(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*(ii) Share-based payments*

Share-based compensation benefits are provided to employees via the Fortescue Metals Group Incentive Option Scheme ("FMGIOS").

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

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**NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Shares options granted before 7 November 2002 and/or vested before 1 January 2005*

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

*Shares options granted after 7 November 2002 and vested after 1 January 2005*

The fair value of options granted under the FMGIOS is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The fair value of the options granted excludes the impact of any non-market vesting conditions.

Upon the exercise of options, the balance of the reserve relating to those options is transferred to share capital.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as a personnel expense with a corresponding increase in equity when the employees become entitled to the shares.

**(s) Issued Capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

**(t) Dividends**

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

**(u) Earnings per share**

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share 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.

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(v) 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 Tax 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 balance sheet 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.

**(w) Significant accounting judgements, estimates and assumptions**

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. In the process of applying Fortescue's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on amounts recognised in the financial statements.

*(i) Exploration and evaluation assets*

Fortescue's accounting policy for exploration and evaluation expenditure is set out at note 1(b). The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under our policy, we conclude that we are unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the income statements.

*(ii) Share-based payment transactions*

Fortescue measures the cost of equity-settled transactions with employees by reference to the fair value of the equity investments at the date of which they are granted. The fair value is determined using the Black-Scholes model, using the assumptions detailed in note 32.

**NOTE 2. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS**

**(i) Reconciliation of Profit or Loss for the year ended 30 June 2005**

	Note	Consolidated			Company		
		Previous GAAP \$	Effect of Change \$	Australian Equiv.s to IFRS \$	Previous GAAP \$	Effect of Change \$	Australian Equiv.s to IFRS \$
Revenue from ordinary activities		1,746,572	-	1,746,572	-	-	-
Revenue from outside ordinary activities		-	-	-	1,721	-	1,721
		1,746,572	-	1,746,572	1,721	-	1,721
Cost of sales		(1,117,215)	-	(1,117,215)	-	-	-
Personnel expenses	f	(1,467,942)	(773,587)	(2,241,529)	(1,017,027)	(773,587)	(1,790,614)
Other expenses		(1,688,951)	-	(1,688,951)	(1,515,661)	-	(1,515,661)
Financial income		1,691,478	-	1,691,478	1,722,726	-	1,722,726
Financial expenses	g	-	(2,909,000)	(2,909,000)	-	(2,909,000)	(2,909,000)
Loss before tax		(836,058)	(3,682,587)	(4,518,645)	(808,241)	(3,682,587)	(4,490,828)
Income tax expense		-	-	-	-	-	-
Loss for the year		(836,058)	(3,682,587)	(4,518,645)	(808,241)	(3,682,587)	(4,490,828)

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 2. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)**

**(ii) Reconciliation of Cash Flow Statement for the year ended 30 June 2005**

The adoption of AIFRS did not result in any material adjustments to the cash flow statements.

**(iii) Reconciliation of Equity**

**(a) At the end of the last reporting period under AGAAP : 30 June 2005**

	Note	Previous GAAP \$	Consolidated Effect of Transition to AIFRS \$ 30 June 2005	AIFRS \$	Previous GAAP \$	Company Effect of Transition to AIFRS \$ 30 June 2005	AIFRS \$
<b>CURRENT ASSETS</b>							
Cash and cash equivalents		81,158,375	-	81,158,375	81,040,753	-	81,040,753
Trade and other receivables		1,112,872	-	1,112,872	788,407	-	788,407
Inventories		137,413	-	137,413	-	-	-
Financial assets		2,723	-	2,723	2,723	-	2,723
Other current assets		60,356	-	60,356	60,356	-	60,356
<b>Total Current Assets</b>		<b>82,471,739</b>	<b>-</b>	<b>82,471,739</b>	<b>81,892,239</b>	<b>-</b>	<b>81,892,239</b>
<b>NON-CURRENT ASSETS</b>							
Trade and other receivables		1,334,824	-	1,334,824	6,000,736	-	6,000,736
Exploration and evaluation expenditure		63,337,525	-	63,337,525	58,671,213	-	58,671,213
Property, plant and equipment		1,172,798	-	1,172,798	1,166,756	-	1,166,756
Other financial assets		26,000	-	26,000	26,403	-	26,403
<b>Total Non-Current Assets</b>		<b>65,871,147</b>	<b>-</b>	<b>65,871,147</b>	<b>65,865,108</b>	<b>-</b>	<b>65,865,108</b>
<b>Total Assets</b>		<b>148,342,886</b>	<b>-</b>	<b>148,342,886</b>	<b>147,757,347</b>	<b>-</b>	<b>147,757,347</b>
<b>CURRENT LIABILITIES</b>							
Trade and other payables		9,305,527	-	9,305,527	9,139,879	-	9,139,879
Provisions		243,046	-	243,046	234,338	-	234,338
<b>Total Current Liabilities</b>		<b>9,548,573</b>	<b>-</b>	<b>9,548,573</b>	<b>9,374,217</b>	<b>-</b>	<b>9,374,217</b>
<b>NON-CURRENT LIABILITIES</b>							
Deferred Tax	b	-	11,634,000	11,634,000	-	11,634,000	11,634,000
Convertible Notes	a	50,203,562	17,516,000	67,719,562	50,203,562	17,516,000	67,719,562
<b>Total Non-Current Liabilities</b>		<b>50,203,562</b>	<b>29,150,000</b>	<b>79,353,562</b>	<b>50,203,562</b>	<b>29,150,000</b>	<b>79,353,562</b>
<b>Total Liabilities</b>		<b>59,752,135</b>	<b>29,150,000</b>	<b>88,902,135</b>	<b>59,577,779</b>	<b>29,150,000</b>	<b>88,727,779</b>
<b>NET ASSETS</b>		<b>88,590,751</b>	<b>(29,150,000)</b>	<b>59,440,751</b>	<b>88,179,568</b>	<b>(29,150,000)</b>	<b>59,029,568</b>
<b>EQUITY</b>							
Issued capital	c	95,716,651	(26,241,000)	69,475,651	95,716,651	(26,241,000)	69,475,651
Reserves	d	-	773,587	773,587	-	773,587	773,587
Accumulated losses	e	(7,125,900)	(3,682,587)	(10,808,487)	(7,537,083)	(3,682,587)	(11,219,670)
<b>TOTAL EQUITY</b>		<b>88,590,751</b>	<b>(29,150,000)</b>	<b>59,440,751</b>	<b>88,179,568</b>	<b>(29,150,000)</b>	<b>59,029,568</b>

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 2. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)**

**(iii) Reconciliation of Equity**

**(b) At the date of transition to IFRS : 1 July 2004**

Note	Previous GAAP \$	Consolidated Effect of Transition to AIFRS \$ 1 July 2004	AIFRS \$	Previous GAAP \$	Company Effect of Transition to AIFRS \$ 1 July 2004	AIFRS \$
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	5,330,037	-	5,330,037	5,139,904	-	5,139,904
Trade and other receivables	461,181	-	461,181	225,886	-	225,886
Inventories	135,583	-	135,583	-	-	-
Financial assets	2,723	-	2,723	2,723	-	2,723
Other current assets	3,384	-	3,384	-	-	-
<b>Total Current Assets</b>	<b>5,932,908</b>	<b>-</b>	<b>5,932,908</b>	<b>5,368,513</b>	<b>-</b>	<b>5,368,513</b>
<b>NON-CURRENT ASSETS</b>						
Non-current receivables	196,642	-	196,642	4,797,162	-	4,797,162
Exploration and evaluation expenditure	10,420,932	-	10,420,932	5,820,012	-	5,820,012
Property, plant and equipment	453,560	-	453,560	433,825	-	433,825
Other financial assets	26,000	-	26,000	26,403	-	26,403
<b>Total Non-Current Assets</b>	<b>11,097,134</b>	<b>-</b>	<b>11,097,134</b>	<b>11,077,402</b>	<b>-</b>	<b>11,077,402</b>
<b>Total Assets</b>	<b>17,030,042</b>	<b>-</b>	<b>17,030,042</b>	<b>16,445,915</b>	<b>-</b>	<b>16,445,915</b>
<b>CURRENT LIABILITIES</b>						
Trade and other payables	2,878,671	-	2,878,671	2,736,793	-	2,736,793
Provisions	85,959	-	85,959	82,709	-	82,709
<b>Total Current Liabilities</b>	<b>2,964,630</b>	<b>-</b>	<b>2,964,630</b>	<b>2,819,502</b>	<b>-</b>	<b>2,819,502</b>
<b>Total Liabilities</b>	<b>2,964,630</b>	<b>-</b>	<b>2,964,630</b>	<b>2,819,502</b>	<b>-</b>	<b>2,819,502</b>
<b>NET ASSETS</b>	<b>14,065,412</b>	<b>-</b>	<b>14,065,412</b>	<b>13,626,413</b>	<b>-</b>	<b>13,626,413</b>
<b>EQUITY</b>						
Issued capital	20,355,255	-	20,355,255	20,355,255	-	20,355,255
Accumulated losses	(6,289,843)	-	(6,289,843)	(6,728,842)	-	(6,728,842)
<b>TOTAL EQUITY</b>	<b>14,065,412</b>	<b>-</b>	<b>14,065,412</b>	<b>13,626,413</b>	<b>-</b>	<b>13,626,413</b>

**FORTESCUE METALS GROUP LTD**  
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**NOTE 2. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)**

**Notes to the reconciliations of equity and profit and loss at 1 July 2004 and 30 June 2005**

	<b>30 June 2005</b>	<b>1 July 2004</b>
	<b>\$</b>	<b>\$</b>
(a) Convertible notes comprise:		
Adjustment to valuation of Debt component of Convertible Notes under AASB 132 and AASB 139	17,516,000	-
Total	<u>17,516,000</u>	<u>-</u>
(b) Deferred tax liabilities comprise:		
Deferred tax liability on equity portion of convertible notes	11,634,000	-
Total	<u>11,634,000</u>	<u>-</u>
(c) Contributed equity comprise:		
Adjustment to valuation of Equity component of Convertible Notes under AASB 132 and AASB 139	(14,607,000)	-
Deferred tax liability on equity portion of convertible notes	(11,634,000)	-
Total	<u>(26,241,000)</u>	<u>-</u>
(d) Reserves comprise:		
Share based payments reserve relating employee option plan	773,587	-
Total	<u>773,587</u>	<u>-</u>
(e) Accumulated losses comprise:		
Interest Expense on Convertible Notes	(2,909,000)	-
Share based payments expense relating to employee option plan	(773,587)	-
Total	<u>(3,682,587)</u>	<u>-</u>
(f) General and administration expense comprise:		
Share based payments expense relating to employee option plan	773,587	-
Total	<u>773,587</u>	<u>-</u>
(g) Other expenses from ordinary activities comprise:		
Interest Expense on Convertible Notes	2,909,000	-
Total	<u>2,909,000</u>	<u>-</u>



**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 3. REVENUE**

	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Revenue from Ordinary Activities</b>				
Sales Revenue	834,276	1,746,572	-	-
<b>Revenue from Outside Ordinary Activities</b>				
Management Fees	-	-	-	1,675
Other income	-	-	-	46
<b>Total Revenue</b>	<u>834,276</u>	<u>1,746,572</u>	<u>-</u>	<u>1,721</u>

**NOTE 4. PERSONNEL EXPENSES**

	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Wages and salaries, including superannuation	2,619,747	690,042	2,494,956	319,395
Other associated personnel expenses	344,269	620,813	338,824	546,003
Increase in liability for annual leave	371,166	157,087	346,917	151,629
Equity-settled transactions	1,253,631	773,587	1,253,631	773,587
	<u>4,588,813</u>	<u>2,241,529</u>	<u>4,434,328</u>	<u>1,790,614</u>

**NOTE 5. OTHER EXPENSES**

	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Communication costs	268,244	225,114	248,427	138,269
Office rent	366,942	302,725	345,504	252,142
Depreciation	709,897	279,393	708,762	272,009
Travel costs	598,511	193,938	585,765	155,975
Insurance	295,420	153,798	294,731	143,581
ASX fees	66,174	116,547	66,174	116,547
Export market development costs	-	300,000	-	300,000
Other	340,397	117,436	336,363	137,138
	<u>2,645,585</u>	<u>1,688,951</u>	<u>2,585,726</u>	<u>1,515,661</u>

**NOTE 6. NET FINANCING COSTS**

	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Interest income	2,219,214	1,381,360	2,217,195	1,376,508
Interest revenue on close out of convertible notes	9,451,596	-	9,451,596	-
Net foreign exchange gain	159,341	310,118	159,341	346,218
<b>Financial income</b>	<u>11,830,151</u>	<u>1,691,478</u>	<u>11,828,132</u>	<u>1,722,726</u>
Interest expense - convertible notes	(6,542,596)	(2,909,000)	(6,542,596)	(2,909,000)
<b>Financial expenses</b>	<u>(6,542,596)</u>	<u>(2,909,000)</u>	<u>(6,542,596)</u>	<u>(2,909,000)</u>
<b>Net financing costs</b>	<u>5,287,555</u>	<u>(1,217,522)</u>	<u>5,285,536</u>	<u>(1,186,274)</u>

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 7. DISCONTINUED OPERATION**

**(a) Description**

At the Company's Annual General Meeting held on 8 November 2005 members approved the de-merger of Allied Medical Limited through an "in specie" distribution of shares in Allied Medical Limited shares to Fortescue shareholders as at the record date of 23 November 2005.

Financial information relating to the discontinued operation for the period to the date of demerger is set out below.

**(b) Financial performance and cash flow information**

The financial performance and cash flow information of Allied Medical Limited presented are for the five months ended 30 November 2005 and the year ended 30 June 2005.

	Period ended	
	30 November 2005	30 June 2005
	\$	\$
Revenue	834,276	1,713,603
Expenses	(738,160)	(1,741,420)
Profit/(Loss) before income tax	96,116	(27,817)
Income tax expense	-	-
Profit/(Loss) after income tax of discontinued operations	96,116	(27,817)
Profit/(Loss) on demerger of the subsidiary before income tax	(507,300)	-
Income tax expense	-	-
Profit/(Loss) on demerger of the subsidiary	(507,300)	-
Profit/(Loss) from discontinued operations	(411,184)	(27,817)
The net cashflows of the discontinuing operation which have been incorporated into the statement of cash flows are as follows:		
Net cash inflow/(outflow) from ordinary activities	19,593	(72,509)
Net cash inflow/(outflow) from investing activities	-	-
Net cash inflow/(outflow) from financing activities	-	-
Net increase in cash generated by the subsidiary	19,593	(72,509)

**(c) Carrying amounts of assets and liabilities**

The carrying amounts of assets and liabilities as at 30 November 2005 and 30 June 2005.

	30 November	30 June
	2005	2005
	\$	\$
Cash assets	137,213	117,620
Trade receivables	376,553	318,266
Other receivables	(75)	6,199
Inventories	58,937	137,413
Property, plant and equipment	4,907	6,042
<b>Total assets</b>	<b>577,535</b>	<b>585,540</b>
Trade creditors	37,278	165,648
Provision for employee benefits	32,957	8,708
<b>Total liabilities</b>	<b>70,235</b>	<b>174,356</b>
<b>Net assets</b>	<b>507,300</b>	<b>411,184</b>

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 7. DISCONTINUED OPERATION (continued)**

**(d) Details of the demerger of the division**

	Year ended	
	30 June 2006	30 June 2005
	\$	\$
Consideration received or receivable:		
Cash	-	-
<b>Total disposal consideration</b>	<b>-</b>	<b>-</b>
Carrying amount of net non-cash assets sold	(370,087)	-
Net cash lost on disposal	(137,213)	-
<b>Loss on sale before income tax</b>	<b>(507,300)</b>	<b>-</b>
Income tax expense	-	-
<b>Loss on sale after income tax</b>	<b>(507,300)</b>	<b>-</b>

	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$

**NOTE 8. INCOME TAX**

(a) The components of tax expense comprise:

Current tax income	(32,721,293)	(9,016,875)	(32,739,045)	(8,993,081)
Deferred tax income	31,855,675	7,883,025	31,844,592	7,867,575
Benefit of prior year capital losses recouped in the current year	(102,402)	-	(102,402)	-
Tax losses recognised – current year	968,020	1,133,850	996,855	1,125,506
	-	-	-	-

(b) The prima facie income tax, using rates applicable in the country of operation, on loss from ordinary activities differs from the income tax provided in the financial report as follows:

Loss before tax - continuing operations	(1,734,518)	(4,518,645)	(1,734,518)	(4,490,828)
Loss before tax - discontinuing operations	(411,183)	-	-	-
Loss before tax	(2,145,701)	(4,518,645)	(1,734,518)	(4,490,828)

Income tax expense calculated at 30%

(2005: 30%)	(643,710)	(1,355,594)	(520,355)	(1,347,249)
Sundry non-deductible/ (deductible) expenses	47,411	(10,332)	47,411	(10,332)
Share based payments	376,089	232,076	376,089	232,076
Research and development	(900,000)	-	(900,000)	-
Accounting loss on sale of operations	152,190	-	-	-
Taxable gain on sale of operations	102,402	-	102,402	-
Deferred Tax Asset on temporary differences and tax losses not brought to account at balance date as realisation is not regarded as probable	968,020	1,133,850	996,855	1,125,505
Benefit of prior year capital losses recouped in the current year	(102,402)	-	(102,402)	-
Income tax expense for the year	-	-	-	-

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>NOTE 8. INCOME TAX (continued)</b>				
(c) Amount recognised directly in equity:				
Current tax	-	-	-	-
Deferred tax (Note 22)	-	11,634,000	-	11,634,000
	<u>-</u>	<u>11,634,000</u>	<u>-</u>	<u>11,634,000</u>
(d) Deferred Tax Asset not brought to account				
Tax losses – revenue	16,162,550	12,994,307	20,828,463	17,660,220
Tax losses – capital	44,521,290	44,862,630	44,521,290	44,862,630
	<u>60,683,840</u>	<u>57,856,937</u>	<u>65,349,753</u>	<u>62,522,850</u>
Tax effect at 30%	<u>18,205,152</u>	<u>17,357,081</u>	<u>19,604,926</u>	<u>18,756,855</u>

The Deferred Tax Asset not brought to account for the 2006 year will only be obtained if:

- (a) Fortescue derives assessable income of a nature and of an amount sufficient to enable the benefit to be realised;
- (b) Fortescue continues to comply with the conditions for deductibility imposed by tax legislation; and
- (c) Fortescue is able to meet the continuity of ownership and/or continuity of business tests.

	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>NOTE 9. CASH AND CASH EQUIVALENTS - CURRENT</b>				
Cash on hand	5,064	602	5,062	600
Cash at bank	18,049,143	3,388,738	18,049,143	3,271,118
Deposits at call	-	77,769,035	-	77,769,035
	<u>18,054,207</u>	<u>81,158,375</u>	<u>18,054,205</u>	<u>81,040,753</u>

**NOTE 10. TRADE AND OTHER RECEIVABLES – CURRENT**

Trade receivables	-	1,128,990	-	788,407
GST receivables	1,360,141	-	1,360,141	-
Other receivables	12,331	-	12,331	-
Less: provision for doubtful debts	-	(16,118)	-	-
	<u>1,372,472</u>	<u>1,112,872</u>	<u>1,372,472</u>	<u>788,407</u>

**NOTE 11. INVENTORIES – CURRENT**

At cost	-	137,413	-	-
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**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>NOTE 12. FINANCIAL ASSETS – CURRENT</b>				
Listed investments at fair value	2,723	2,723	2,723	2,723
Trust accounts	320,000	-	320,000	-
	<u>322,723</u>	<u>2,723</u>	<u>322,723</u>	<u>2,723</u>

<b>NOTE 13. OTHER CURRENT ASSETS</b>				
Prepayments	161,231	60,356	161,231	60,356

<b>NOTE 14. TRADE AND OTHER RECEIVABLES – NON-CURRENT</b>				
Loan receivable	2,401,778	1,334,824	2,401,778	1,334,824
Security deposits	6,210,737	-	6,210,737	-
Term deposits	5,710,964	-	5,710,964	-
Loans and advances – controlled entities	-	-	4,665,912	4,665,912
	<u>14,323,479</u>	<u>1,334,824</u>	<u>18,989,391</u>	<u>6,000,736</u>

<b>NOTE 15. EXPLORATION AND EVALUATION EXPENDITURE</b>				
Carrying amount at beginning of year	63,337,525	10,420,932	58,671,213	5,820,012
Expenditure outlaid in cash	119,576,931	52,832,580	119,576,931	52,767,188
Expenditure non-cash	-	84,013	-	84,013
Carrying amount at end of year	<u>182,914,456</u>	<u>63,337,525</u>	<u>178,248,144</u>	<u>58,671,213</u>

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

Company	Class of share	Place of Incorporation	Equity Holding		Cost to Company	
			2006	2005	2006	2005
			%	%	\$	\$
<b>Parent Entity</b>						
Fortescue Metals Group Ltd		Australia	-	-	-	-
<b>Controlled Entities</b>						
Allied Medical Ltd	Ordinary	Australia	-	100	-	1
The Pilbara Infrastructure Pty Ltd	Ordinary	Australia	100	100	1	1
FMG Resources Pty Ltd	Ordinary	Australia	100	100	400	400
FMG Pilbara Pty Ltd	Ordinary	Australia	100	100	1	1
FMG Chichester Pty Ltd	Ordinary	Australia	100	100	-	-
FMG Finance Pty Ltd*	Ordinary	Australia	100	-	-	-
					<u>402</u>	<u>403</u>

\*FMG Finance Pty Ltd is a 100% subsidiary of FMG Pilbara Pty Ltd

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	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>NOTE 17. PROPERTY, PLANT AND EQUIPMENT</b>				
Land and buildings – at cost	315,939	114,915	315,939	114,915
Accumulated depreciation	(852)	-	(852)	-
	<u>315,087</u>	<u>114,915</u>	<u>315,087</u>	<u>114,915</u>
Plant and office equipment – at cost	4,612,250	1,417,569	4,612,250	1,397,701
Accumulated depreciation	(1,056,372)	(365,948)	(1,056,372)	(352,122)
	<u>3,555,878</u>	<u>1,051,621</u>	<u>3,555,878</u>	<u>1,045,579</u>
Motor vehicles – at cost	6,958	6,958	6,958	6,958
Accumulated depreciation	(4,356)	(696)	(4,356)	(696)
	<u>2,602</u>	<u>6,262</u>	<u>2,602</u>	<u>6,262</u>
Total property, plant and equipment	<u>3,873,567</u>	<u>1,172,798</u>	<u>3,873,567</u>	<u>1,166,756</u>
<b>Reconciliation of movements in carrying amounts</b>				
<b>Land and Buildings</b>				
Carrying amount at beginning of year	114,915	-	114,915	-
Additions	201,024	114,915	201,024	114,915
Depreciation	(852)	-	(852)	-
Carrying amount at end of year	<u>315,087</u>	<u>114,915</u>	<u>315,087</u>	<u>114,915</u>
<b>Plant and equipment</b>				
Carrying amount at beginning of year	1,051,621	440,712	1,045,579	433,825
Additions	3,214,549	978,040	3,214,549	965,059
Disposal	-	(1,183)	-	(1,183)
Demerger of Allied Medical Limited assets	(4,907)	-	-	-
Depreciation	(705,385)	(365,948)	(704,250)	(352,122)
Carrying amount at end of year	<u>3,555,878</u>	<u>1,051,621</u>	<u>3,555,878</u>	<u>1,045,579</u>
<b>Motor vehicles</b>				
Carrying amount at beginning of year	6,262	12,848	6,262	-
Additions	-	6,958	-	6,958
Disposal	-	(12,848)	-	-
Depreciation	(3,660)	(696)	(3,660)	(696)
Carrying amount at end of year	<u>2,602</u>	<u>6,262</u>	<u>2,602</u>	<u>6,262</u>

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	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>NOTE 18. FINANCIAL ASSETS – NON-CURRENT</b>				
Unquoted investments – at cost	26,000	26,000	26,000	26,000
Shares in controlled entities	-	-	402	403
	26,000	26,000	26,402	26,403

Financial assets are available-for-sale assets.

**NOTE 19. TRADE AND OTHER PAYABLES – CURRENT**

Trade payables	-	4,161,765	-	4,041,314
Other payables and accruals	16,674,415	5,386,808	16,674,415	5,332,903
	16,674,415	9,548,573	16,674,415	9,374,217

**NOTE 20. INTEREST BEARING LOANS AND BORROWINGS**

Syndicated loan – secured #	67,267,590	-	67,267,590	-
Convertible notes - unsecured	-	67,719,562	-	67,719,562
	67,267,590	67,719,562	67,267,590	67,719,562

**Convertible Notes**

During the year ended 30 June 2006 the Company exercised its option to convert the convertible notes into ordinary shares in the Company. The number of shares issued was 19,863,533.

	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$

The convertible notes are presented in the balance sheets as follows:

Face value of notes issued	-	103,589,844	-	103,589,844
Classified as equity securities	-	(35,870,282)	-	(35,870,282)
	-	67,719,562	-	67,719,562

*Syndicated loan*

The Company put in place during the current financial year a US\$200 million syndicated loan note facility with institutional investors. The facility was put in place to ensure the rapid development of its Pilbara Iron Ore and Infrastructure Project is maintained without compromising its capital raising process.

The key terms and conditions of the facility are:

- The facility term is 2 years subject to a review after 12 months;
- Pricing is based on a competitive margin over LIBOR; and
- (#) The facility is secured over Fortescue's total assets per the consolidated balance sheet.

The Company has drawn down US\$50 million as at 30 June 2006.

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	Consolidated		Company	
	2006	2005	2006	2005
<b>NOTE 21. EMPLOYEES</b>				
Average number of employees during the financial year	171	85	171	81

Note 32 provides details of employee benefits related to share based payments.

**NOTE 22. DEFERRED TAX LIABILITIES – NON-CURRENT**

The balance comprises temporary differences attributable to :

- Amounts recognised to profit or loss	-	-	-	-
- Equity component of convertible notes	-	11,634,000	-	11,634,000
	-	11,634,000	-	11,634,000

Movements in equity component of convertible notes:

Balance at beginning of year	11,634,000	-	11,634,000	-
Charged to equity	(11,634,000)	11,634,000	(11,634,000)	11,634,000
Balance at end of year	-	11,634,000	-	11,634,000

**NOTE 23. ISSUED CAPITAL**

A reconciliation of the movement in capital and reserves for the Company and the consolidated entity can be found in the Statement of Changes in Equity.

**SHARE CAPITAL**

	2006	2005
	Number of shares	Number of shares
Ordinary shares fully paid:		
Balance at beginning of financial year	217,822,928	124,298,108
Conversion of options at 8 cents	-	69,580,000
Conversion of options at 20 cents	-	1,000,000
Conversion of options at 50 cents	-	1,000,000
Conversion of options at 75 cents	-	1,000,000
Conversion of options at \$1.00	-	1,000,000
Issue of shares at 55 cents	-	12,898,470
Issue of shares at \$1	-	7,046,350
Equity-settled transactions	3,000	-
Conversion of convertible notes at \$4.50	8,985,644	-
Conversion of convertible notes at \$6.00	10,877,888	-
Balance at end of financial year	237,689,460	217,822,928

Fully paid ordinary shares entitle the holder to participate in dividends and to one vote per share at meetings of the Company. Ordinary shares participate in the proceeds on winding up of the Company in proportion to the number of shares held.

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.



**FORTESCUE METALS GROUP LTD**  
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**NOTE 24. RESERVES**

(a) *The share based payments reserve*

The share based payments reserve records items recognised as expenses on valuation of employee share options.

(b) *Asset revaluation reserve*

The asset revaluation reserve records revaluations of non-current assets. Under certain circumstances dividends can be declared from this reserve.

**NOTE 25. EARNINGS PER SHARE**

**Basic earnings per share**

The calculation of basic earnings per share at 30 June 2006 was based on the loss attributable to ordinary shareholders of \$2,145,701 (2005: loss \$4,518,645) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2006 of 223,451,812 (2005: 175,236,990), calculated as follows:

	<b>Consolidated</b>	
	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Loss attributable to ordinary shareholders	(2,145,701)	(4,518,645)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	223,451,812	175,236,990
Basic earnings per share (in cents)	(0.96)	(2.58)

**Diluted earnings per share**

The Company's potential ordinary shares, being its options granted, are not considered dilutive as the conversion to these options would result in a decrease in the net loss per share.

**Earnings per share for continuing and discontinued operations**

**Basic earnings per share**

	<b>Consolidated</b>	
	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
From continuing operations (in cents)	(0.78)	(2.56)
From discontinuing operations (in cents)	(0.18)	(0.02)

For the financial year ended 30 June 2006, earnings per share for continuing and discontinued operations has been calculated using the same figures as earnings per share, except that the loss for the period used in the calculation is the loss relating to continuing operations of \$1,734,518 (2005: loss \$4,463,011) and the loss relating to discontinued operations of \$411,184 (2005: loss \$27,817).

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**NOTE 26. SEGMENT REPORTING**

Segment information is presented in respect of Fortescue's business and geographical segments. The primary format, business segments, is based on Fortescue's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

**Primary Reporting**

*Business Segments*

Fortescue has the following two business segments:

- Development of the Pilbara Iron Ore and Infrastructure Project; and
- Marketing and distribution of medical products throughout Australia and New Zealand. This business was demerged in November 2005.

**Secondary Reporting**

*Geographical Segments*

Fortescue operated predominantly in the geographical location of Australia.

**FORTESCUE METALS GROUP LTD**  
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**NOTE 26. SEGMENT REPORTING (continued)**

**Business Segments (continued)**

	Mining & Exploration		Medical (Discontinued)		Eliminations		Consolidated		Less: Medical (Discontinued)		Consolidated (Continuing Operations)	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue from external customers:	-	-	-	-	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	1,746,572	1,746,572	(834,276)	(1,746,572)	-	-
Services	-	1,721	-	(1,721)	-	(1,721)	-	-	-	-	-	-
Total revenue	(7,020,054)	(3,304,554)	-	-	-	-	834,276	1,746,572	(834,276)	(1,746,572)	-	-
Segment result	-	-	-	-	-	-	94,098	3,431	(94,098)	(3,431)	(7,020,054)	(3,304,554)
Loss before financing costs	(7,020,054)	(3,304,554)	-	-	-	-	94,098	3,431	(94,098)	(3,431)	(7,020,054)	(3,304,554)
Net financing income/(costs)	5,285,536	(1,186,274)	-	-	-	-	2,019	(31,248)	(2,019)	31,248	5,285,536	(1,186,274)
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-
Loss on sale of discontinued operation, net of tax	(1,734,518)	(4,490,828)	-	-	-	-	(507,300)	-	(507,300)	-	-	-
Profit for the period	221,048,537	147,757,750	(402)	(402)	(404)	(404)	221,048,135	148,342,886	-	(585,540)	221,048,135	147,757,347
Segment assets	221,048,537	147,757,750	(402)	(402)	(404)	(404)	221,048,135	148,342,886	-	(585,540)	221,048,135	147,757,347
Total assets	83,942,005	88,727,779	-	-	-	-	83,942,005	88,902,135	-	(174,356)	83,942,005	88,727,779
Segment liabilities	83,942,005	88,727,779	-	-	-	-	83,942,005	88,902,135	-	(174,356)	83,942,005	88,727,779
Total liabilities	(129,130,662)	(48,290,299)	-	-	-	-	(129,111,069)	(48,362,808)	(19,593)	72,509	(129,130,662)	(48,290,299)
Cash flows from operating activities	(3,532,917)	(2,140,970)	-	-	-	-	(3,532,917)	(2,140,970)	-	-	(3,532,917)	(2,140,970)
Cash flows from investing activities	67,267,590	124,453,265	-	-	-	-	67,267,590	124,453,265	-	-	67,267,590	124,453,265
Cash flows from financing activities	122,992,504	54,003,525	-	-	-	-	122,992,504	54,016,506	-	(12,981)	122,992,504	54,003,525
Capital expenditure												

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	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$

**NOTE 27. AUDITORS REMUNERATION**

Amounts received or due and receivable by auditors for:

Auditing – the financial report	56,715	40,514	56,715	32,564
Financial due diligence	107,261	-	107,261	-
	163,976	40,514	163,976	32,564

**NOTE 28(a) RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES**

Loss for the period	(2,145,701)	(4,518,645)	(1,734,518)	(4,490,828)
Depreciation	713,334	279,393	712,199	272,009
Loss on sale of assets	-	4,157	-	-
Provision – employee entitlements	367,731	157,087	343,482	151,629
Equity-settled share based payment expenses	1,253,631	773,587	1,253,631	773,587
Interest expense	(2,909,000)	2,909,000	(2,909,000)	2,909,000
Exploration expenditure capitalised	(119,576,931)	(52,832,580)	(119,576,931)	(52,832,580)
Net unrealised gain on foreign exchange	(159,341)	(851,170)	(159,341)	(851,170)
Operating profit before changes in working capital	(122,456,277)	(54,079,171)	(122,070,478)	(54,068,353)
<i>Changes in assets and liabilities during the year:</i>				
Increase/ (decrease) in payables	6,805,042	6,426,856	6,933,412	6,400,599
(Increase) /decrease in financial assets	(320,000)	-	(320,000)	-
(Increase) /decrease in receivables and prepayments	(13,725,609)	(708,663)	(13,673,596)	(622,545)
(Increase) /decrease in inventory	78,476	(1,830)	-	-
	(129,618,369)	(48,362,808)	(129,130,662)	(48,290,299)
Loss on sale of discontinued operations, net of tax	507,299	-	-	-
<b>Net cash used in operating activities</b>	<b>(129,111,069)</b>	<b>(48,362,808)</b>	<b>(129,130,662)</b>	<b>(48,290,299)</b>

**NOTE 28(b) NON-CASH FINANCING AND INVESTING ACTIVITIES**

In the year ended 30 June 2005 - 46,355 shares at \$1.00 each and 50,288 shares at 55 cents each to various suppliers in payment for services.

**NOTE 29. FINANCIAL INSTRUMENTS**

*(a) Credit Risk Exposures*

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to Fortescue. Fortescue has adopted the policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. Fortescue measures credit risk on a fair value basis.

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**NOTE 29. FINANCIAL INSTRUMENTS (continued)**

Fortescue does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents Fortescue's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

*(b) Interest Rate Risk*

**Effective interest rates and repricing analysis**

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

<b>2006 Consolidated</b>	<b>Note</b>	<b>Effective interest rate %</b>	<b>6 months or less \$</b>	<b>6-12 months \$</b>	<b>1-2 years \$</b>	<b>Non interest bearing \$</b>	<b>Total \$</b>
Cash and cash equivalents	9	3.95	18,049,143	-	-	5,064	18,054,207
Other receivables	10	-	-	-	-	1,372,472	1,372,472
Listed shares	12	-	-	-	-	2,723	2,723
Prepayments	13	-	-	-	-	161,231	161,231
Loan receivable	14	-	-	-	-	2,401,778	2,401,778
Security deposits	14	-	-	-	-	6,210,737	6,210,737
Term deposits	14	3.95	-	-	5,710,964	-	5,710,964
Trust accounts	12	-	-	-	-	320,000	320,000
Unquoted investments	18	-	-	-	-	26,000	26,000
Trade and other payables	19	-	-	-	-	(16,674,415)	(16,674,415)
Syndicated loan	20	9.96	-	-	(67,267,590)	-	(67,267,590)
			<u>18,049,143</u>	<u>-</u>	<u>(61,556,626)</u>	<u>(6,174,410)</u>	<u>(49,681,893)</u>
<b>Company</b>							
Cash and cash equivalents	9	3.95	18,049,143	-	-	5,062	18,054,205
Other receivables	10	-	-	-	-	1,372,472	1,372,472
Listed shares	12	-	-	-	-	2,723	2,723
Prepayments	13	-	-	-	-	161,231	161,231
Loan receivable	14	-	-	-	-	2,401,778	2,401,778
Security deposits	14	-	-	-	-	6,210,737	6,210,737
Term deposits	14	3.95	-	-	5,710,964	-	5,710,964
Loans and advances – controlled entities	14	-	-	-	-	4,665,912	4,665,912
Trust accounts	12	-	-	-	-	320,000	320,000
Unquoted investments	18	-	-	-	-	26,000	26,000
Trade and other payables	19	-	-	-	-	(16,674,415)	(16,674,415)
Syndicated loan	20	9.96	-	-	(67,267,590)	-	(67,267,590)
			<u>18,049,143</u>	<u>-</u>	<u>(61,556,626)</u>	<u>(1,508,500)</u>	<u>(45,015,983)</u>

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**NOTE 29. FINANCIAL INSTRUMENTS (continued)**

<b>2005</b>		<b>Effective</b>	<b>6 months</b>	<b>6-12</b>	<b>1-2 years</b>	<b>Non</b>	<b>Total</b>
<b>Consolidated</b>	<b>Note</b>	<b>interest</b>	<b>or less</b>	<b>months</b>	<b>\$</b>	<b>interest</b>	<b>\$</b>
		<b>rate</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>bearing</b>	<b>\$</b>
		<b>%</b>				<b>\$</b>	
Cash and cash equivalents	9	4.23	3,388,738	77,769,035	-	602	81,158,375
Trade receivables	10	-	-	-	-	1,112,872	1,112,872
Inventories	11	-	-	-	-	137,413	137,413
Listed shares	12	-	-	-	-	2,723	2,723
Prepayments	13	-	-	-	-	60,356	60,356
Loan receivable	14	-	-	-	-	1,334,824	1,334,824
Unquoted investments	18	-	-	-	-	26,000	26,000
Trade and other payables	19	-	-	-	-	(9,548,573)	(9,548,573)
Convertible notes	20	-	-	-	-	(50,203,562)	(50,203,562)
			<u>3,388,738</u>	<u>77,769,035</u>	<u>-</u>	<u>(57,077,345)</u>	<u>24,080,428</u>
<b>Company</b>							
Cash and cash equivalents	9	4.23	3,271,118	77,769,035	-	600	81,040,753
Trade receivables	10	-	-	-	-	788,407	788,407
Listed shares	12	-	-	-	-	2,723	2,723
Prepayments	13	-	-	-	-	60,356	60,356
Loan receivable	14	-	-	-	-	1,334,824	1,334,824
Loans and advances – controlled entities	14	-	-	-	-	4,665,912	4,665,912
Unquoted investments	18	-	-	-	-	26,000	26,000
Trade and other payables	19	-	-	-	-	(9,374,217)	(9,374,217)
Convertible notes	20	-	-	-	-	(50,203,562)	(50,203,562)
			<u>3,271,118</u>	<u>77,769,035</u>	<u>-</u>	<u>(52,698,957)</u>	<u>28,341,196</u>

Convertible notes on issue during the financial year did not bear interest during the period.

*(c) Net Fair Value*

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in note 1 to the financial statements.

*(d) Foreign currency risk*

Fortescue is exposed to foreign currency risk on cash held, foreign currency loans and exploration and evaluation expenditure. The currency giving rise to this risk is primarily US dollars. Fortescue has not entered into any forward foreign exchange contracts as at 30 June 2006 and is currently fully exposed to foreign exchange risk.

**FORTESCUE METALS GROUP LTD**  
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**NOTE 30. COMMITMENTS**

*(a) Leasing Commitments*

Operating leases	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Less than one year	965,273	335,734	965,273	335,734
Between one and five years	2,814,202	283,844	2,814,202	283,844
Greater than five years	276,966	-	276,966	-
	<u>3,779,475</u>	<u>619,578</u>	<u>3,779,475</u>	<u>619,578</u>

The property lease regarding Fortescue's previous headquarters at 50 Kings Park Road, West Perth, expires on 1 February 2014, with a five year first term of renewal at 1 February 2013. Contingent rental provisions within the lease agreement require the minimum lease payments to be reviewed every two years from the commencement date.

The property lease regarding Fortescue's current headquarters at 87 Adelaide Terrace, East Perth, expires on 1 April 2010, with a five year option term of renewal commencing 1 April 2010. Contingent rental provisions within the lease agreement require the minimum lease payments to be reviewed annually from the commencement date.

*(b) Exploration Tenement Leases – Commitments for Expenditure.*

In order to maintain current rights of tenure to exploration tenements, Fortescue is required to outlay lease rentals and to meet the minimum expenditure requirements of \$7,650,440 over the next financial year (2005 \$1,393,844).

Financial commitments for subsequent periods are contingent upon future exploration results and can not be estimated. These obligations are subject to renegotiation upon expiry of the exploration leases or when application for a mining licence is made and have not been provided for in the accounts.

*(c) Project Commitments*

Commitments exist in relation to the project for up to \$43,281,584 (2005: \$2,400,000) over the next financial year, being the minimum commitment of the Company and the consolidated entity should the project not go forward.

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

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**NOTE 31. KEY MANAGEMENT PERSONNEL DISCLOSURES**

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

**Directors**

The following persons were Directors of the Company during the financial year:

*Chairman – Non Executive*

Mr Gordon Toll

*Executive Directors*

Mr Andrew Forrest, *Chief Executive Officer*

Mr Graeme Rowley, *Executive Director Operations*

Mr Russell Scrimshaw, *Executive Director Commercial*

*Non Executive Directors*

Mr Herb Elliott

Mr Ken Ambrecht

**Key Management Personnel**

Mr Alan Watling, *Head of Infrastructure*

Mr Peter Thomas, *Chief Financial Officer – The Pilbara Infrastructure Pty Ltd*

Mr John Clout, *Head of Resource Strategy*

Mr Christopher Catlow, *Chief Financial Officer*

Mr Julian Tapp, *Head of Government Relations*

Mr Bill Ramsey, *Project Director*

**Key management personnel compensation**

The key management personnel compensation included in ‘personnel expenses’ (see note 4) are as follows:

	<b>Consolidated</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Short-term employee benefits	2,509,284	1,049,726	2,509,284	1,049,726
Other long term benefits	-	-	-	-
Post-employment benefits	217,825	98,022	217,825	98,022
Termination benefits	-	-	-	-
Equity compensation benefits	448,362	236,464	448,362	236,464
	<u>3,175,471</u>	<u>1,384,212</u>	<u>3,175,471</u>	<u>1,384,212</u>

The Company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the Detailed Remuneration Disclosures to the Directors’ Report. The relevant information can be found in the Remuneration Report.

Balances above are recognised on a gross basis. Personnel expenses disclosed in note 4 are recognised net of salary recoveries.



**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 31. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)**

**Individual Directors and executives compensation disclosures**

Information regarding individual Directors and executives compensation is provided in the Remuneration Report section of the Directors' report.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or Fortescue since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year-end.

**Option over equity instruments granted as compensation**

The movement during the reporting period in the number of options over ordinary shares in the Company held directly, indirectly or beneficially, by each key management person, including their related parties is as follows.

**2006**

	Held at 1 July 2005	Granted as compensation	Exercised	Other changes during the year	Balance at 30 June 2006	Vested during the year	Vested and exercisable at the end of the year
<b>Key Management Personnel</b>							
A Watling	200,000	-	-	-	200,000	50,000	50,000
P Thomas	190,000	25,000	-	-	215,000	47,500	47,500
J Clout	150,000	30,000	-	-	180,000	37,500	37,500
C Catlow	-	100,000	-	-	100,000	-	-
J Tapp	100,000	40,000	-	-	140,000	25,000	25,000
B Ramsey	-	100,000	-	-	100,000	-	-
	640,000	295,000	-	-	935,000	160,000	160,000

No Directors held options during the financial year.

No options held by key management personnel are vested but not exercisable.

**2005**

	Held at 1 July 2004	Granted as compensation	Exercised	Other changes during the year	Balance at 30 June 2005	Vested during the year	Vested and exercisable at the end of the year
<b>Directors</b>							
G Toll	-	-	-	-	-	-	-
H Elliott	750,000	-	(750,000)	-	-	750,000	-
A Forrest	69,555,000	-	(67,850,000)	(1,705,000)	-	69,555,000	-
G Rowley	-	-	(1,000,000)	1,000,000	-	-	-
R Scrimshaw	750,000	-	(750,000)	-	-	750,000	-
K Ambrecht	750,000	-	(750,000)	-	-	750,000	-
<b>Other Key Management Personnel</b>							
A Watling	-	200,000	-	-	200,000	-	-
P Thomas	-	190,000	-	-	190,000	-	-
J Clout	-	150,000	-	-	150,000	-	-
C Catlow	-	-	-	-	-	-	-
J Tapp	-	100,000	-	-	100,000	-	-
B Ramsey	-	-	-	-	-	-	-
	71,805,000	640,000	(71,100,000)	(705,000)	640,000	71,805,000	-

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 31. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)**

**Movements in Shares**

The movement during the reporting period in the number of ordinary shares in the Company held directly, inadvertently or beneficially, by each key management person, including their related parties, are set out below.

**2006**

**Ordinary shares**

Name	Held at 1 July 2005	Received on exercise of options	Purchases	Sales	Held at 30 June 2006
<b>Directors</b>					
A Forrest	102,674,330	-	-	(366,500)	102,307,830
G Rowley	2,149,569	-	-	(2,000)	2,147,569
H Elliott	800,000	-	-	(250,000)	550,000
R Scrimshaw	1,077,600	-	-	-	1,077,600
K Ambrecht	750,000	-	-	-	750,000
G Toll	750,000	-	-	-	750,000
<b>TOTAL</b>	<b>108,201,499</b>	<b>-</b>	<b>-</b>	<b>(618,500)</b>	<b>107,582,999</b>

**Other Key Management Personnel**

A Watling	-	-	-	-	-
P Thomas	110,000	-	-	(15,000)	95,000
J Clout	5,000	-	70	(2,000)	3,070
C Catlow	800,000	-	-	-	800,000
J Tapp	-	-	-	-	-
B Ramsey	-	-	22,000	-	22,000
<b>TOTAL</b>	<b>915,000</b>	<b>-</b>	<b>22,070</b>	<b>(17,000)</b>	<b>920,070</b>

**2005**

**Ordinary shares**

Name	Held at 1 July 2004	Received on exercise of options	Purchases	Sales	Held at 30 June 2005
<b>Directors</b>					
A Forrest	39,602,665	67,850,000	397,335	(5,175,670)	102,674,330
G Rowley	1,359,569	1,000,000	-	(210,000)	2,149,569
H Elliott	50,000	750,000	100,000	(100,000)	800,000
R Scrimshaw	327,600	750,000	-	-	1,077,600
K Ambrecht	-	750,000	-	-	750,000
G Toll	-	-	750,000	-	750,000
<b>TOTAL</b>	<b>41,339,834</b>	<b>71,100,000</b>	<b>1,247,335</b>	<b>(5,485,670)</b>	<b>108,201,499</b>

**Other Key Management Personnel**

A Watling	-	-	-	-	-
P Thomas	-	-	120,000	(10,000)	110,000
J Clout	-	-	15,000	(10,000)	5,000
C Catlow	800,000	-	-	-	800,000
J Tapp	-	-	-	-	-
B Ramsey	-	-	-	-	-
<b>TOTAL</b>	<b>800,000</b>	<b>-</b>	<b>135,000</b>	<b>(20,000)</b>	<b>915,000</b>

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 31. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)**

**Other related party transactions**

**Subsidiaries**

Loans are made by the Company to wholly owned subsidiaries for capital purchases. Loans outstanding between the Company and its controlled entities have no fixed date of repayment and are non-interest bearing. During the financial year ended 30 June 2006, such loans to subsidiaries totalled \$4,665,912 (2005: \$4,665,912). These loans have been recognised as non-current receivables.

During the 2005 financial year, a subsidiary FMG Pilbara Pty Ltd loaned \$608,506 (2005: \$608,506) to another subsidiary FMG Chichester Pty Ltd. The loan is interest free and has no fixed date of repayment.

**NOTE 32. SHARE BASED PAYMENTS**

Shareholders approved the implementation of the Fortescue Metals Group Incentive Option Scheme ("FMGIOS") at the 2005 AGM. The FMGIOS entitles key management personnel and senior employees to purchase shares in the Company. In accordance with these programmes options are exercisable at the market price of the shares at the date of grant.

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date / employee entitled	Number of instruments	Vesting conditions	Contractual life of options
Option grant to key management in June 2005	2,000,000	Four years of service	5 years
Option grant to key management in January 2006	430,000	Four years of service	5 years
Option grant to key management in June 2006	500,000	Four years of service	5 years
Total share options	2,930,000		

The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2006	2006	2005	2005
Outstanding at the beginning of the period	\$2.67	2,000,000	\$0.09	56,970,000
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	\$0.09	(56,970,000)
Granted during the period	\$6.41	930,000	\$2.67	2,000,000
Outstanding at the end of the period	\$3.86	2,930,000	\$2.67	2,000,000
Exercisable at the end of the period	\$2.67	500,000		-

The options outstanding at 30 June 2006 have an exercise price in the range of \$2.67 to \$7.03 and a weighted average contractual life of 5 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model.

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 32. SHARE BASED PAYMENTS (continued)**

The following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield
28 November 2003	28 November 2006	\$0.30	\$0.50	\$0.50	26.40%	5.75%	-
28 November 2003	28 November 2006	\$0.26	\$0.75	\$0.50	26.40%	5.75%	-
28 November 2003	28 November 2006	\$0.23	\$1.00	\$0.50	26.40%	5.75%	-
1 June 2005	31 December 2009	\$1.97	\$2.67	\$2.67	26.40%	5.75%	-
25 January 2006	25 January 2011	\$4.60	\$5.69	\$6.15	26.80%	5.13%	-
1 June 2006	1 June 2011	\$5.79	\$7.03	\$7.68	26.80%	5.75%	-

**Employee expenses**

	Note	Consolidated		The Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
Share options granted in 2005- equity settled	4	982,580	773,587	982,580	773,587
Share options granted in 2006- equity settled	4	271,051	-	271,051	-
Total expense recognised as employee costs		1,253,631	773,587	1,253,631	773,587

**NOTE 33. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

**Contingent liability**

*ASIC Proceedings*

The Australian Securities and Investment Commission ("ASIC") intends to commence legal proceedings against Fortescue and its Chief Executive Officer in relation to market disclosure of certain agreements signed by the Company in 2004. The agreement in question relate to those signed with China Railway Engineering Corporation ("CREC"), China Harbour Engineering Corporation ("CHEC") and China Metallurgical Construction Corporation ("MCC").

The ASIC statement of claim alleges a breach by the Company and by the CEO of the continuous disclosure provisions of the Corporations Act under Section 674 and also a breach under Section 1041H relating to deceptive and misleading conduct. ASIC is seeking civil penalties of up to \$3,000,000 for the Company and \$600,000 for the CEO and an order that he compensate Fortescue for any pecuniary penalty it may be required to pay.

Both the Company and the CEO Mr Andrew Forrest will vigorously contest the charges.

**Contingent asset**

*Payroll tax assessment*

A payroll tax assessment for the amount of \$1,495,989 was received from the State Revenue Department relating to options issued to The Metals Group Pty Ltd in 2003. The Company has lodged an objection to this assessment on the grounds that these options are not wages for payroll tax purposes under the definitions of the Payroll Tax Assessment Act 2002.

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

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**NOTE 34. AFTER BALANCE DATE EVENTS**

*(i) Capital raising*

On 15 July 2006 Leucadia National Corporation signed a Subscription Agreement to invest US\$400 million in Fortescue. Leucadia will receive 26.4 million shares in the Company and US\$100 million of Secured Subordinated Loan Notes upon financial close, which occurs when US\$2 billion of secured debt and lease facilities have been established. The Notes have a 13 year term, a zero fixed interest rate and a variable interest rate equal to 4% of the revenue, net of government royalties received from the sale of iron ore from Cloud Break and Christmas Creek.

*(ii) Syndicated loan*

The Company has drawn down an additional US\$100 million subsequent to year end.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

**NOTE 35. CHANGE IN ACCOUNTING POLICY**

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and economic entity but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

<b>AASB Amendment</b>	<b>AASB Standard Affected</b>	<b>Nature of Change in Accounting Policy and Impact</b>	<b>Application Date of the Standard</b>	<b>Application Date for the Group</b>
2004-3	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2006	1 July 2006
	AASB 101: Presentation of Financial Statements	No change, no impact	1 January 2006	1 July 2006
	AASB 124: Related Party Disclosures	No change, no impact	1 January 2006	1 July 2006
2005-1	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006
2005-5	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2006	1 July 2006
	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006
2005-6	AASB 3: Business Combinations	No change, no impact	1 January 2006	1 July 2006

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

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**NOTE 35. CHANGE IN ACCOUNTING POLICY (continued)**

2005-9	AASB 132: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006
	AASB 139: Financial Instruments: Disclosure and Presentation	Fortescue is in the process of evaluating the effect of these changes of which the impact is not reasonably estimable at the date of this financial report.	1 January 2006	1 July 2006
2005-10	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2007	1 July 2007
	AASB 101: Presentation of Financial Statements	No change, no impact	1 January 2007	1 July 2007
	AASB 114: Segment Reporting	No change, no impact	1 January 2007	1 July 2007
	AASB 117: Leases	No change, no impact	1 January 2007	1 July 2007
	AASB 133: Earnings per share	No change, no impact	1 January 2007	1 July 2007
	AASB 132: Financial Instruments: Disclosure and Presentation	No change, no impact	1 January 2007	1 July 2007
	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2007	1 July 2007
	AASB 4: Insurance Contracts	No change, no impact	1 January 2007	1 July 2007
	AASB 1023: General Insurance Contracts	No change, no impact	1 January 2007	1 July 2007
	AASB 1038: Life Insurance Contracts	No change, no impact	1 January 2007	1 July 2007
2006-1	AASB 121: The Effects of Changes in Foreign Exchange Rates	No change, no impact	1 January 2006	1 July 2006
New Standard	AASB 7: Financial Instruments: Disclosure	No change, no impact	1 January 2007	1 July 2007
New Standard	AASB 119: Employee Benefits: December 2004	No change, no impact	1 January 2006	1 July 2006

**FORTESCUE METALS GROUP LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

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**NOTE 35. CHANGE IN ACCOUNTING POLICY (continued)**

All other pending Standards issued between the previous financial report and the current reporting dates have no application to either the parent or economic entity.

<b>AASB Amendment</b>	<b>AASB Standard Affected</b>
2005-2	AASB 1023: General Insurance Contracts
2005-4	AASB 139: Financial Instruments: Recognition and Measurement AASB 132: Financial Instruments: Disclosure and Presentation
2005-9	AASB 4: Insurance Contracts AASB 1023: General Insurance Contracts AASB 139: Financial Instruments: Recognition and Measurement AASB 132: Financial Instruments: Disclosure and Presentation

**FORTESCUE METALS GROUP LTD  
DIRECTORS' DECLARATION**

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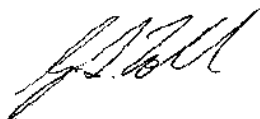
**FORTESCUE METALS GROUP LTD AND ITS CONTROLLED ENTITIES  
ACN 002 594 872**

**Directors' declaration**

- 1 In the opinion of the Directors of Fortescue Metals Group Ltd ('the Company'):
  - (a) the financial statements and notes including the remuneration disclosures that are contained the Remuneration report in the Directors' report, set out on pages 2 to 57, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures* and ASIC Class Order 06/105 *Calculation of director and executive remuneration/* Corporations Act 2001
  - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
  
- 2 The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2006 pursuant to Section 295A of the Corporations Act 2001.

Dated at Perth this 18<sup>th</sup> day of July 2006.

Signed in accordance with a resolution of the Directors:



---

Mr Gordon Toll  
Chairman





**FORTESCUE METALS GROUP LTD  
INDEPENDENT AUDIT REPORT**

---

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and compensation disclosures, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

**Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

The independence declaration given to the directors in accordance with section 307C would be in the same terms if it had been given at the date of this report.

**Audit Opinion**

In our opinion:

- (1) the financial report of Fortescue Metals Group Limited is in accordance with:
  - (a) the Corporations Act 2001, including:
    - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
    - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
  - (b) other mandatory financial reporting requirements in Australia; and
- (2) the compensation disclosures that are contained in pages 8 to 14 of the directors' report comply with Accounting Standard AASB 124 and the Corporations Regulations 2001.

**BDO**  
**Chartered Accountants**



**BG McVeigh**  
Partner

Dated this 18<sup>th</sup> day of July 2006  
Perth, Western Australia

**APPENDIX A**

**EXECUTIVE SUMMARY OF THE SNOWDEN REPORT, DATED JULY 11, 2006**

## Final

Fortescue Metals Group Ltd: Review of December 2005 and May 2006 Ore  
Reserve and Confirmation of Mineral Resource  
Project No. **5595**

**Cloud Break and Christmas Creek Deposits**  
**July 2006**

Prepared by R Stroud  
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A Earl  
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This report has been prepared by Snowden Mining Industry  
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## 1 Summary

### 1.1 Reserve statement

Snowden was requested by Fortescue Metals Group Ltd (Fortescue) to review the December 2005 and May 2006 Ore Reserve estimates for their compliance with the Australasian Code for reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code). The 2005 Ore Reserve estimate announced by Fortescue included deposits at the Cloud Break and Christmas Creek areas of the Chichester Range and is summarised in Table 1.1.

**Table 1.1 Fortescue December 2005 Ore Reserve estimate**

<b>Classification</b>	<b>Tonnes (Mt)</b>	<b>Fe (%)</b>	<b>SiO<sub>2</sub> (%)</b>	<b>Al<sub>2</sub>O<sub>3</sub> (%)</b>	<b>P (%)</b>	<b>LOI (%)</b>
<b>High Grade</b>						
Probable	359	60.4	3.2	1.9	0.051	7.4
<b>Low Grade</b>						
Probable	707	57.7	5.2	2.7	0.052	7.9
<b>Total</b>	<b>1,066</b>	<b>58.6</b>	<b>4.5</b>	<b>2.4</b>	<b>0.052</b>	<b>7.8</b>

The 2005 Ore Reserve was converted from an Indicated Resource of 809 Mt at 58.5% Fe, 4.6% SiO<sub>2</sub>, 2.5% Al<sub>2</sub>O<sub>3</sub>, 0.051% P and 7.6% LOI at Christmas Creek reported by Fortescue on 12 September 2005 and 572 Mt at 58.7% Fe, 4.1% SiO<sub>2</sub>, 2.4% Al<sub>2</sub>O<sub>3</sub>, 0.055% P and 8.3% LOI at Cloud Break reported by Fortescue on 6 October 2005.

Subsequent infill drilling led to updated resource estimates for Christmas Creek in February 2006 and for Cloud Break in March 2006. At Cloud Break, the updated resource of 561 Mt at 58.6% Fe, 4.2% SiO<sub>2</sub>, 2.5% Al<sub>2</sub>O<sub>3</sub>, 0.059% P and 8.3% LOI contained 144 Mt classified as Measured Resource. On 31 May 2006, Fortescue announced a Proved Reserve of 121 Mt converted from 144 Mt of Measured Resource within an updated pit design. The May 2006 statement did not include a tabulation of the Probable Reserve.

Fortescue has subsequently reviewed the tabulation of the diluted Measured and Indicated Resources reported from the 2006 Cloud Break resource model within the modified design based on the December 2005 pit optimisation shell for Cloud Break and accepts this as an accurate reflection of the diluted resource available for conversion to Proved and Probable Reserve status (letter from M Castle dated 10 July 2006).

The total current ore reserve based on this conversion is shown in Table 1.2 and is virtually unchanged from the December 2005 statement. However, there is potential for additional Probable Reserves with further optimisation studies using both the Christmas Creek and Cloud Break updated resource models.



Table 1.2 Fortescue May 2006 Ore Reserve estimate

Classification	Tonnes (Mt)	Fe (%)	SiO <sub>2</sub> (%)	Al <sub>2</sub> O <sub>3</sub> (%)	P (%)	LOI (%)
<b>High Grade</b>						
Proved	69	60.5	2.8	1.6	0.049	8.3
Probable	290	60.5	3.3	2.0	0.052	7.2
<b>Low Grade</b>						
Proved	52	57.6	5.2	2.4	0.051	8.7
Probable	643	57.7	5.1	2.7	0.052	7.9
<b>Total</b>	<b>1,053</b>	<b>58.6</b>	<b>4.5</b>	<b>2.4</b>	<b>0.052</b>	<b>7.8</b>

## 1.2 Key findings

During early 2006, detailed pit designs and practical mine schedules were completed using the December 2005 Ore Reserve as part of the Definitive Feasibility Study (DFS). The DFS schedule shows that approximately 990 Mt is scheduled over the current life of mine, which is 63 Mt or 6% less than the current reserve estimate.

In Snowden's opinion, the difference in tonnage between the scheduled reserve over the 20 year mine life and the total 2005 and 2006 inventories reported within optimum pit shells generated using Whittle 4X software and modified to account for ore loss and dilution, is within the accuracy of the Ore Reserve statements.

In Snowden's opinion, therefore, the 2005 and 2006 Ore Reserves are reported in accordance with the JORC Code, 2004 Edition.

Fortescue has not as yet undertaken a detailed risk analysis and there is therefore no documentation of risks and mitigation procedures. Neither is there any documentation of audits, their outcomes and action lists. In terms of comparison with best practice resource/reserve estimation procedures, Snowden would expect that these items should be addressed reasonably soon, not only to avoid unexpected risks but also to capitalise on any opportunities that may become evident.

## 2 Introduction and review methodology

### 2.1 Introduction

Rick Stroud, Group Manager Snowden Mining Industry Consultants (Snowden) reviewed the December 2005 Ore Reserve estimate for Fortescue. The areas investigated included the Cloud Break and Christmas Creek deposits.

Snowden's review consisted of the following activities:

- discussions held with Malcolm Castle and other Fortescue personnel
- review of documentation requested by Snowden or provided by Fortescue
- spot checks on data provided by Fortescue and independent mining checks
- spot checks on spreadsheets and other key results files provided by Fortescue

This work was peer reviewed on behalf of Snowden by Allan Earl, Principal Consultant.

### 2.2 Review methodology

Snowden's review team examined the resource conversion, modifying factors and Ore Reserve reporting. Rather than attempting to exhaustively verify the Ore Reserve, Snowden concentrated on reviewing processes and procedures via a list of best practice items, reproduced herein as Table 4.1. The focus was on confirming that the Ore Reserve was classified and reported in accordance with the JORC Code. The application of and justification for any modifying factors to the resource estimates were an important area of review; however there was no detailed audit of the work behind the steps discussed in Table 4.1.

For the Ore Reserve Snowden focused on the modifying factors applied in the Resource to Ore Reserve conversion, particularly ore loss and dilution, but also including cost, geotechnical, and the metallurgical assumptions. The Ore Reserve was reviewed in the context of Fortescue's life of mine plan.

A number of issues arising were discussed with the management team. Snowden is satisfied that issues relating to the mine design and mine schedule were addressed as part of the Definitive Feasibility Study completed in the first half of 2006.

### 2.3 Capability

#### 2.3.1 Mr Jim Williams (Competent Person)

Mr Jim Williams (FAusIMM) has acted as the Competent Person under the JORC Code in the preparation and reporting of the Ore Reserve estimates upon which this review document is based. Mr Williams has over 40 years experience in open pit, underground and alluvial mining including more than sixteen years in Central and Southern Africa and Australia. Prior to joining Fortescue Mr Williams spent six years as a mining engineering consultant for Bechtel followed by seventeen years in private practice. Mr Williams has conducted technical and financial reviews of a large number of Feasibility Studies on behalf of various banks including Standard Chartered and more recently by Dresdner Bank who retained him as Resource Consultant. Mr Williams has been intimately associated in many mineral commodities, including coal, iron ore, base metals and precious metals. Mr Williams holds an Associateship from Camborne School of Mines in England, is a Chartered Professional Engineer and is a Fellow of the AusIMM.

### 2.3.2 Mr Rick Stroud (Principal Author)

This review was undertaken by Mr Richard (Rick) Stroud. Mr Stroud has 33 years of experience in the mining industry. This includes 15 years of large and small open pit precious and base metals mining experience with CRA, RioTinto, BMI Mining and Paget Gold Mining in a range of technical and managerial roles in Australia and Fiji. Rick also has 15 years in the coal mining industry, nine years in the manufacturing and service Industries in Australia, New Guinea and Indonesia. His technical expertise covers, operational mining engineering and audits, equipment selection, drill and blast, strategic and transition planning, and operations management.

### 2.3.3 Mr Allan Earl (Peer Review)

Peer review of this document was undertaken by Mr Allan Earl (FAusIMM). Mr Earl is a mining engineer with over 25 years experience in mine design, planning and operations in Australia and Africa. During this time he has held senior technical and management positions. Since joining Snowden in 1996, he has consulted on a large number of mining projects in several countries. His areas of expertise include mining feasibility studies at all levels, underground mine planning and design, reserve estimation, mine operations management and project management. Mr Earl is the Competent Person for several Ore Reserve statements published by various companies and has also peer reviewed a number of Ore Reserve statements over the last 10 years.

Mr Earl has evaluated, on behalf of Snowden, the review undertaken by Mr Stroud, and concurs with the findings of the review.

Note: Mr Stroud and Mr Earl have the relevant combined experience for the purpose of reviewing Fortescue's Ore Reserve estimates however, neither Mr Stroud nor Mr Earl are Competent Persons as defined under the JORC Code for the purpose of estimating, or supervising the estimation of Fortescue's Cloud Break and Christmas Creek Ore Reserve statements.

### 3 Description of operation

Fortescue is the owner of iron ore tenement interests located in the Hamersley Province of Western Australia, an iron ore province covering some 80,000 km<sup>2</sup> of the southern half of the Pilbara region. Fortescue's tenements cover an area of some 34,000 km<sup>2</sup>. Included in these tenements are the Cloud Break and Christmas Creek deposits.

Mining at Cloud Break and Christmas Creek will be carried out using open pit mining methods. The mining method is strip mining which uses progressive backfill to minimise cost and environmental impact.

Several mining systems were selected based on the characteristics of the individual stratigraphic units of the material to be mined. The main systems proposed for overburden waste removal comprise:

- conventional excavator and off-highway truck
- bucket wheel excavator (BWE) and mobile stacking conveyor (MSC)
- drilling and blasting

For the ore mining operation, the mining method will comprise:

- surface miners
- 85-90 tonne off-highway trucks
- front-end loaders

Ore will be transported to the processing plant by way of overland conveyor. The conveyor system will extend the full length of the Cloud Break/Christmas Creek operation, a distance of approximately 80 km.

Crushing and screening will take place at the mine to produce separate lump and fines (nominally -8 mm) while a port materials handling facility will re-screen lump prior to shiploading. Only high grade run of mine ore will eventually be processed into lump and fines. Low grade ore (now termed Super value ore) will all be crushed into fines only.

## 4 Details of Review

The following tabulation (Table 4.1) details the items reviewed by Snowden and provides commentary where necessary.

Table 4.1 Mineral Resource and Mineral Reserve items for consideration

<b>Ore Reserve – Chichester Range Iron Project</b>		<b>Discussion</b>	<b>Cov.</b>
<b>Item</b>	<b>Tenements and agreements</b>		
<div style="display: flex; justify-content: space-between; font-size: small;"> <span>Item fully covered</span> <span>Item incompletely covered</span> <span>Item not covered</span> </div> <div style="display: flex; justify-content: space-between;"> <span>✓</span> <span>□</span> <span>X</span> </div>			
<b>1.</b>			
1.	All tenements covering mining and processing/infrastructure have been granted and are secure for the life of the resource/reserve	Exploration leases (ELs) granted; mining leases applied for	✓
2.	Date tenements granted and reduction/termination dates	ELs granted 2004	✓
3.	Location and area	Chichester Range 110 km north of Newman	✓
4.	Private land, Native Title interests and historic sites	Native title resolved	✓
5.	Government designated areas (National Parks, State Forest, etc)	No issues	✓
6.	Notification procedures for tenement renewals	In progress	✓
7.	Ownership agreements and material issues with third parties	Nil	✓
8.	Options, royalties and other payments are clear	Government only	✓
<b>2.</b>			
<b>Mineral Resource hand-over</b>			
1.	Flowsheets or procedure manuals for model handover exist, match current procedures, and are presented	Hand over complete	✓
2.	Block model suitable for style and selectivity of proposed mining method		✓
3.	Hand-over validation reporting completed.		✓
4.	Resource block model covers area of interest and all waste blocks assigned grades		✓
<b>3.</b>			
<b>Study type and accuracy</b>			
1.	Basis and accuracy of feasibility studies	Feasibility study in progress, reserve based on optimisation results, modified for ore loss and dilution by Snowden	✓
2.	Basis and suitability of reconciliation data explained	na	
3.	Consistent cut-off grade parameters and modifying factors used throughout the reserve estimation process	Consistent throughout	✓
4.	Ongoing geotechnical data collection from instrumentation, exposures and core	Programme complete by Snowden	✓
5.	Ongoing geotechnical studies/research requirements to extract deeper ores	na	
6.	Accuracy of key modifying factors quantified	General range is 10% to 15 % (occasional +/-20%) as per SRK/Snowden optimisation parameter sheets	✓

Ore Reserve – Chichester Range Iron Project			
Item	Discussion	Item fully covered Item incompletely covered Item not covered	Cov.
<b>4. Cut-off grade strategy financial parameters and site costs</b>			
1. Flowsheets or procedure manuals for cut-off grade calculations exist, match current corporate strategy, and are presented	As per SRK/Snowden optimisation parameter sheets	<input checked="" type="checkbox"/>	✓
2. Derivation of assumptions regarding capital and operating costs	As above	<input checked="" type="checkbox"/>	✓
3. Costs presented and divided into fixed and variable	As above	<input checked="" type="checkbox"/>	✓
4. Operation mill or mine constrained	na	<input checked="" type="checkbox"/>	✓
5. Consideration of mine to mill interface and stockpile strategy	Blending considered	<input checked="" type="checkbox"/>	✓
6. Assumptions made / documented regarding revenue including: <ul style="list-style-type: none"> <li>• Head grade</li> <li>• Metal or commodity price(s)</li> <li>• Exchange rates</li> <li>• Transportation</li> <li>• Penalties</li> <li>• TC/RC</li> </ul>	As per SRK/Snowden optimisation parameter sheets	<input checked="" type="checkbox"/>	✓
7. Allowances made for royalties		<input checked="" type="checkbox"/>	✓
8. Market assessment		<input checked="" type="checkbox"/>	✓
9. Equivalent metal or net revenue formulae applied		<input checked="" type="checkbox"/>	✓
10. Cut off grade strategy / product quality parameters applied	As per SRK/Snowden optimisation parameter sheets	<input checked="" type="checkbox"/>	✓
11. Cut off grade strategy meets strategic LOM plan / Business Plan	As per SRK/Snowden optimisation parameter sheets	<input checked="" type="checkbox"/>	✓
<b>5. Geotechnical and hydrogeological factors and assumptions</b>			
1. Flowsheets or procedure manuals match current practise, and are presented		<input checked="" type="checkbox"/>	✓
2. Rockmass characteristics defined and impacts on mining assessed, including: <ul style="list-style-type: none"> <li>• unplanned dilution</li> <li>• requirements for local and regional pillars</li> <li>• impact of seismicity</li> <li>• preferred mining sequence</li> <li>• ground support requirements</li> </ul>	Snowden geotechnical recommendations incorporated in optimisation	<input checked="" type="checkbox"/>	✓
3. Anticipated failure mechanisms investigated and identified		<input checked="" type="checkbox"/>	✓
4. Major geotechnical domains defined		<input checked="" type="checkbox"/>	✓
5. Local and regional pillar requirements investigated and identified		<input checked="" type="checkbox"/>	✓

<b>Ore Reserve – Chichester Range Iron Project</b>			
Item	Discussion	Cov.	<input checked="" type="checkbox"/> Item fully covered <input type="checkbox"/> Item incompletely covered <input checked="" type="checkbox"/> Item not covered
6.	Geotechnical / hydrological sequencing/scheduling constraints investigated and identified		✓
7.	Geotechnical modifying factors adequately defined		✓
8.	Geotechnical recommendations based on selected mining method and cut-off grade strategy		✓
9.	Ground support requirements investigated and identified	na	
10.	Major (geo)hydrological domains defined	As per Aquaterra hydrology report	✓
11.	(Geo)hydrological impact on Mineral Reserves investigated and identified	No impact	✓
<b>Mining method</b>			
1.	Mine design flowsheets or procedure manuals match current practice, and are presented	na	
2.	Mining method based on orebody geometry, rock mass character, local conditions and standard operating practise.	Waste - Conventional truck and shovel and BWE Ore - Surface miners	✓
3.	Method considers safety, environment, community, productivity, corporate objectives and hurdle rate issues		✓
4.	Level of study for each orebody/region considered	All pits based on optimisations	✓
5.	Pit designs and underground development and slope designs based on world's best practise	Optimisation only	✓
6.	Open cut mining considers: <ul style="list-style-type: none"> <li>• bench heights</li> <li>• equipment selection</li> <li>• minimum mining widths</li> <li>• slope stabilities and angles</li> <li>• basis of cost assumptions</li> </ul>	Refer to basis of design parameter sheet	✓
7.	Underground mining considers: <ul style="list-style-type: none"> <li>• mine access and infrastructure</li> <li>• minimum mining widths</li> <li>• geotechnical issues / reinforcement and support</li> <li>• equipment selection</li> <li>• key infrastructure requirements (haulage, vent, air, water, refrigeration, etc)</li> <li>• basis of cost assumptions</li> </ul>	na	
8.	Assumptions and parameters used in any optimisations carried out	As per parameter sheet	✓



<b>Ore Reserve – Chichester Range Iron Project</b>		Item fully covered <input checked="" type="checkbox"/>	Item incompletely covered <input type="checkbox"/>	Item not covered <input checked="" type="checkbox"/>	<b>Cov.</b>
<b>Item</b>	<b>Discussion</b>				<b>Cov.</b>
9.	Mine designs routinely reviewed by peer and senior engineer	Optimisation regularly reviewed as part of Snowden's feasibility study process			✓
<b>7. Levels of dilution and ore recovery</b>					
1.	Flowsheets or procedures match current practise, and are presented	Flow sheets were developed by Snowden and validated by Fortescue as representing the mining process and ore handling system. All factors considered.			✓
2.	Dilution modifying factors considers: <ul style="list-style-type: none"> <li>• width and orientation of mineralisation</li> <li>• nature of contacts and ore boundaries</li> <li>• composite smoothing and block size</li> <li>• drill accuracy, stope designs, blasting issues and ground conditions</li> <li>• minimum mining widths</li> <li>• mining practices</li> <li>• geotechnical and geological controls</li> <li>• reconciliation data</li> </ul>				✓
3.	Ore recovery / loss modifying factors consider: <ul style="list-style-type: none"> <li>• local and regional support</li> <li>• mining practice</li> <li>• seismic hazards</li> <li>• reconciliation data</li> </ul>	Mining recovery was considered on the basis of the application of Surface Miners.			✓
4.	Grade of diluting material is justified	Dilution was estimated into blocks based on adjacent block grades			✓
5.	Annual statements and reports discuss / quantify: <ul style="list-style-type: none"> <li>• Ore loss due to unrecoverable broken stocks in stopes</li> <li>• Ore loss due to misclassification from heave / excessive dilution</li> </ul>	na			✓
<b>8. Life of mine cost and revenue assumptions</b>					
1.	Basis for derivation of capital costs	From the TPI study by Worley and Parsons			✓
2.	Basis for derivation of operating costs	As per SRK/Snowden optimisation parameter sheets			✓
3.	Contingency allowed for	Nil			✓

<b>Ore Reserve – Chichester Range Iron Project</b>		<b>Discussion</b>	<b>Cov.</b>
<b>Item</b>	<b>Discussion</b>	<b>Cov.</b>	<b>Cov.</b>
		<input type="checkbox"/> Item fully covered <input type="checkbox"/> Item incompletely covered <input type="checkbox"/> Item not covered	<input checked="" type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/>
4.	<p>Operating cost assumptions</p> <ul style="list-style-type: none"> <li>• mining</li> <li>• processing</li> <li>• administration</li> <li>• transport</li> <li>• TC/RC</li> <li>• penalties</li> <li>• other (specify)</li> </ul> <p>Mine sustaining capital considered</p> <p>Accuracy of cost estimates quantified and appropriate for reserve classification</p> <p>Assumptions made regarding projected revenue include consideration of:</p> <ul style="list-style-type: none"> <li>• metal/commodity price</li> <li>• exchange rate</li> <li>• TC/RC</li> <li>• Penalties</li> </ul>	As per SRK/Snowden optimisation parameter sheets	✓
5.	Mine sustaining capital considered	Considered in LoM plan	✓
6.	Accuracy of cost estimates quantified and appropriate for reserve classification	As per SRK/Snowden optimisation parameter sheets	✓
7.	Assumptions made regarding projected revenue include consideration of:	As per SRK/Snowden optimisation parameter sheets	✓
8.	Appropriate allowance for all royalties	As per SRK/Snowden optimisation parameter sheets	✓
9.	Cost and revenue assumptions consistent for optimisation, reserve estimation and life of mine planning	Business model used same parameters as optimisation	✓
<b>9. Mine schedule</b>			
1.	Mineral Reserve subject to a practical schedule	No detailed schedule completed for December 2005 but completed for DFS 2006	✓
2.	<p>Mine and process schedules achievable and scheduling assumptions include realistic consideration of:</p> <ul style="list-style-type: none"> <li>• vertical advance rate</li> <li>• equipment selection</li> <li>• development rates</li> <li>• plant capacity</li> <li>• personnel and equipment availability</li> <li>• local methods and statutory</li> </ul> <p>Life of mine schedule based on Proved and Probable Reserves</p>	No detailed schedule completed for December 2005 but completed for DFS 2006	✓
3.	Life of mine schedule based on Proved and Probable Reserves	2006 schedule based on Proved and Probable, minimal Inferred included with dilution	✓
4.	Timing and impact of Inferred Resource in life of mine plan identified	Minimal in dilution envelopes – no material impact	✓

<b>Ore Reserve – Chichester Range Iron Project</b>			
Item	Discussion	Item fully covered Item incompletely covered Item not covered	Cov.
5.	Project viability does not rely on inclusion of Inferred Resource in life of mine schedule		✓
<b>10. Processing considerations</b>			
1.	Process flowsheets match current practice, and presented	Refer to FMG (John Clout) reports (numerous) and optimisation parameter sheet	✓
2.	Metallurgical testwork representative of Ore Reserve	as above	✓
3.	Appropriateness of process to mineralisation	as above	✓
4.	Process uses proven technology / technical risk assessed	as above	✓
5.	Processing quality dominated and cut-off varied (oxide / transitional / primary)	High grade – low grade categorised	✓
6.	Process blending achievable and quantified	as above	✓
7.	Nature and representativeness of characterisation testwork / variability testwork	as above	✓
<b>11. Ore/Mineral Reserve estimation – Justified extraction</b>			
1.	Corporate strategies clearly documented, and presented	Discussed	✓
2.	Corporate criteria for defining "economically mineable" blocks defined (such as): <ul style="list-style-type: none"> <li>• profit</li> <li>• hurdle rate</li> <li>• NPV/IRR</li> <li>• strategic objectives</li> </ul>	8% discount factor applied.	✓
3.	Economic criteria based on Proved and/or Probable Reserves only		✓
4.	Level of assessment appropriate and accuracy of modifying factors quantified		✓
5.	Status of statutory licences and approvals	Ongoing; no issues	✓
6.	Mine schedule realistic and achievable	Confirmed in subsequent DFS	✓
7.	Likelihood of project proceeding		✓
<b>12. Ore/Mineral Reserve estimation – reserve categorisation and tabulation</b>			
1.	Reserve classification follows appropriate code (eg JORC)	Only Probable Reserve	✓
2.	Accuracy of modifying factors quantified; appropriate down grading of reserve classification where uncertainty exists	As per SRK/Snowden	✓
3.	Reporting transparent and material / rationale explained		✓
4.	Each ore source should tabulate:	By high and low grade feed only	✓

<b>Ore Reserve – Chichester Range Iron Project</b>			
Item	Discussion	Item fully covered Item incompletely covered Item not covered	Cov.
<ul style="list-style-type: none"> <li>• Measured and Indicated Resource within mining area</li> <li>• tonnes and grade of dilution</li> <li>• tonnes and grade of ore loss</li> <li>• tonnes and grade of non-recoverable resource</li> <li>• Proved and Probable Reserve</li> </ul>	No separate summary of dilution, contaminants reported	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
5. Oxidation levels reported separately	na		<input checked="" type="checkbox"/>
6. Sensitivity analysis on all key modifying factors	See DFS report		<input checked="" type="checkbox"/>
7. Reserve categories consider accuracy of modifying factors	Probable only		<input checked="" type="checkbox"/>
8. Reporting of risks and any mitigation procedures	na		<input checked="" type="checkbox"/>
9. Grade – tonnage curve(s) presented	HG/LG reported separately		<input checked="" type="checkbox"/>
10. Plot of Ore Reserve by category (eg tonnes vert metre vs vert metre)	na		<input checked="" type="checkbox"/>
11. Resource not converted to Reserve identified and reasons given	na		<input checked="" type="checkbox"/>
12. Inferred Resource within reserve identified, reasons given for inclusion	na		<input checked="" type="checkbox"/>
13. Conversion rate of resource to reserve per ore zone	na		<input checked="" type="checkbox"/>
<b>13. Reporting</b>			
1. Reserve classification into confidence categories and appropriate sign-off statement			<input checked="" type="checkbox"/>
2. Reporting transparent and material			<input checked="" type="checkbox"/>
3. Appropriate rounding of tonnes and grade			<input checked="" type="checkbox"/>
4. Reserve tabulations correct			<input checked="" type="checkbox"/>
5. Reporting of risks and any mitigation procedures			<input checked="" type="checkbox"/>
6. Appropriate sign-off sheets or statements of responsibility included			<input checked="" type="checkbox"/>
7. Statements of competency included	Detailed risk analysis not presented		<input checked="" type="checkbox"/>
<b>14. Reviewing and risk analysis</b>			
1. All aspects of estimation processes audited:			<input checked="" type="checkbox"/>
• Internal and peer review	Internal peer review by Snowden		<input checked="" type="checkbox"/>
• Operations management group			<input checked="" type="checkbox"/>
• External consultants			<input checked="" type="checkbox"/>
2. Documentation of audit outcomes and action lists with responsibilities listed	Not documented		<input type="checkbox"/>
3. Key resource and reserve risks identified	Not presented		<input type="checkbox"/>

## 5 Resources

Snowden has completed resource estimates for the Christmas Creek and Cloud Break deposits (Snowden, 2006a and Snowden, 2006b). The Christmas Creek resource was reported publicly by Fortescue on the 10<sup>th</sup> February 2006 and the Cloud Break resource on the 7<sup>th</sup> March 2006. The resource summaries are presented by deposit below.

### 5.1 Christmas Creek

Snowden has completed a Mineral Resource estimate for the entire Christmas Creek Project within the area defined by Fortescue that encompasses the fully assayed drilling. This estimate is based on Fortescue's geological and mineralisation interpretations completed on the 23<sup>rd</sup> January 2006. The drillhole database used for the estimate contains 3,727 drillholes for a total of 111,493 m of assayed length. There is 17,069 m of assayed length within the mineralised domains. This model supersedes the Snowden's Christmas Creek resource estimate that was reported in September 2005.

Ordinary block kriging was used to estimate concentrations of Fe%, SiO<sub>2</sub>%, Al<sub>2</sub>O<sub>3</sub>%, P%, TiO<sub>2</sub>%, CaO%, MgO%, K<sub>2</sub>O%, Na<sub>2</sub>O%, S% and LOI% in the Hardcap and Nammuldi mineralisation. Where required, top cuts were applied to the data prior to estimation with the top cuts determined from the attribute-domain grade distribution statistics. Indicator kriging was used to estimate MnO% for the mineralised Nammuldi domains due to the highly skewed nature of this attribute. Ordinary kriging was used to estimate MnO% in the Hardcap mineralisation domain. Inverse distance squared estimation was used to estimate all attributes in the channel iron deposit (CID).

The total Mineral Resource estimate within the bedded mineralisation envelope (including Hardcap mineralisation) is 1.4 Bt grading 58% Fe, 4.3% SiO<sub>2</sub>, 2.5% Al<sub>2</sub>O<sub>3</sub>, 0.054% P and 7.7% LOI. This total includes the High Grade domain estimate of 503 Mt grading 60% Fe, 3.2% SiO<sub>2</sub>, 2.0% Al<sub>2</sub>O<sub>3</sub>, 0.053% P and 7.3% LOI. The total resource within the CID is 13 Mt grading 58% Fe, 3.3% SiO<sub>2</sub>, 2.3% Al<sub>2</sub>O<sub>3</sub>, 0.043% P and 10.0% LOI.

The updated Christmas Creek estimate has been classified and reported by Snowden as Measured, Indicated, and Inferred Resources in accordance with the JORC Code, 2004. Snowden has based the resource classification upon a number of criteria, including the geological confidence, the integrity of the data, the spatial continuity of the mineralisation as demonstrated by variography, and the quality of the estimation. The Hardcap and CID mineralisation has been classified as Inferred Resource.

The parts of the mineralised Nammuldi domains that are located below a saline water table (comprising 10% of the total resource) have been classified as Inferred Resource due to the uncertainty of effect of the saline water table on the sample grades. Specifically, the levels of the contaminants Na<sub>2</sub>O%, K<sub>2</sub>O%, MgO% and CaO% are greatly increased below the saline water table and it is unclear to Snowden how reliably these assays reflect in situ grades rather than saline water contamination. Studies, including further geological assessments, statistical analysis of close-spaced data and conditional simulations will be used to refine and update the resource classification in due course.

The classified February 2006 Christmas Creek Mineral Resource estimate is listed in Table 5.1.

Table 5.1 February 2006 Christmas Creek Mineral Resource summary<sup>1</sup>

Category	Mt	Fe%	SiO <sub>2</sub> %	Al <sub>2</sub> O <sub>3</sub> %	P%	LOI%
<b>Hardcap Mineralisation</b>						
Inferred	21	57.10	5.72	3.37	0.040	7.75
<b>Bedded Iron</b>						
Measured	2.2	57.92	4.39	2.91	0.044	7.02
Indicated	665	57.42	4.94	2.82	0.053	7.77
Inferred	211	57.03	4.65	2.61	0.063	8.15
<b>Total</b>	<b>878</b>	<b>57.33</b>	<b>4.87</b>	<b>2.77</b>	<b>0.055</b>	<b>7.86</b>
<b>High Grade Mineralised Bedded Iron</b>						
Measured	3.5	61.45	2.73	2.00	0.035	6.11
Indicated	424	60.24	3.26	2.01	0.051	7.46
Inferred	76	60.79	3.16	1.84	0.061	6.26
<b>Total</b>	<b>503</b>	<b>60.33</b>	<b>3.24</b>	<b>1.99</b>	<b>0.053</b>	<b>7.27</b>
<b>Channel Iron (reported below 3.5% Al<sub>2</sub>O<sub>3</sub> cut-off)</b>						
Inferred	13	58.02	3.33	2.30	0.043	9.98
<b>Total</b>						
Measured	5.7	60.07	3.38	2.36	0.039	6.47
Indicated	1,089	58.51	4.29	2.50	0.052	7.65
Inferred	321	57.96	4.32	2.47	0.060	7.76
<b>Total</b>	<b>1,415</b>	<b>58.39</b>	<b>4.30</b>	<b>2.49</b>	<b>0.054</b>	<b>7.67</b>

### 5.1.1 Competent persons

The resource has been jointly signed-off between Snowden and Fortescue. Snowden has taken responsibility for the resource estimation and Fortescue has taken responsibility for the accuracy of the database and the underlying sample techniques, as this has not been subject to an independent review.

The information that relates to the Christmas Creek Mineral Resources is based on information compiled by Ms Michelle Franks and Mr Doug Keperter who are Members of The Australasian Institute of Mining and Metallurgy.

Ms Michelle Franks (MAusIMM) is employed by Snowden Mining Industry Consultants and produced the resource estimate based upon the interpretations provided by Fortescue. Ms Franks has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which she is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Ms Franks consents to the inclusion in this report of the matters based on her information in the form and context in which it appears.

<sup>1</sup> The information in the table has been presented as three significant figures but it is recommended that only two significant figures are used for public reporting purposes.

Mr Doug Kepert is a full time employee of Fortescue Metals Group Ltd and provided geological interpretations for Mineral Resource calculations. Mr Kepert 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 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Kepert consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

## 5.2 Cloud Break

A Mineral Resource estimate has been completed for the Cloud Break project within an area defined by Fortescue that encompasses the fully assayed drilling. This model is based on the geological and mineralisation interpretations completed on the 20<sup>th</sup> February 2006 by Fortescue. The drillhole database contains 3,258 drillholes and 98,000 m of assayed length. There is 19,929 m of assayed length within the mineralised domains. This model replaces the existing Cloud Break resource estimate that was reported on the 10<sup>th</sup> February 2006.

Ordinary block kriging was used to estimate concentrations of Fe%, SiO<sub>2</sub>%, Al<sub>2</sub>O<sub>3</sub>%, P%, TiO<sub>2</sub>%, CaO%, MgO%, K<sub>2</sub>O%, Na<sub>2</sub>O%, S% and LOI% in the Hardcap and Nammuldi mineralisation. Where required, top cuts were applied to the data prior to estimation with the top cuts determined from the attribute-domain grade distribution statistics. Indicator kriging was used to estimate MnO% for the mineralised Nammuldi domains due to the highly skewed nature of this attribute. Inverse distance squared estimation was used to estimate all attributes in the channel iron deposit (CID).

The total updated Mineral Resource within the bedded mineralisation envelope is 850 Mt at 58.7% Fe, 4.1% SiO<sub>2</sub>, 2.4% Al<sub>2</sub>O<sub>3</sub>, 0.057% P and 8.3% LOI. This represents an overall 34 Mt increase to the total resource reported on the 10<sup>th</sup> February 2006. The total resource includes a High Grade domain component of 363 Mt grading 60.4% Fe, 3.0% SiO<sub>2</sub>, 1.9% Al<sub>2</sub>O<sub>3</sub>, 0.052% P and 7.9% LOI. The total resource within the channel iron mineralised envelope is 32 Mt at 59% Fe, 3.2% SiO<sub>2</sub>, 2.5% Al<sub>2</sub>O<sub>3</sub>, 0.053% P and 9.0% LOI.

Snowden has classified and reported the Cloud Break resource estimate as Measured, Indicated, and Inferred Resources in accordance with the JORC Code, 2004. Snowden has based the resource classification upon a number of criteria, including the geological confidence, the integrity of the data, the spatial continuity of the mineralisation as demonstrated by variography, and the quality of the estimation. The parts of the resource that were estimated from 70 mE by 70 mN drilling have been classified as Measured Resource. The parts of the resource model that were estimated from drill spacings greater than the 70 mE by 70 mN to 400 mE by 100 mN infill drilling, with stepped drill lines of 400 mE by 200 mN drilling, have been classified as Indicated Resource. The parts of the resource model that were estimated from holes collared on an 800 mE by 200 mN spacing have been classified as Inferred Resource. The CID mineralisation has been classified as Inferred Resource.

The parts of the mineralised Nammuldi domains that are located below a saline water table (6% of the resource) have been classified as Inferred Resource due to the possible influence of the saline water table on the assay results. The levels of the contaminants Na<sub>2</sub>O%, K<sub>2</sub>O%, MgO% and CaO% are greatly increased below the saline water table and it is unclear to Snowden how reliable these assays are as they may have been contaminated by the saline water.

The classified March 2006 Cloud Break resource estimate is presented in Table 5.2.

**Table 5.2 March 2006 Cloud Break Mineral Resource summary<sup>2</sup>**

Category	Mt	Fe%	SiO <sub>2</sub> %	Al <sub>2</sub> O <sub>3</sub> %	P%	LOI%
<b>Bedded Iron</b>						
Measured	52	57.56	5.13	2.47	0.053	8.68
Indicated	328	57.34	4.96	2.91	0.062	8.57
Inferred	74	57.07	4.86	2.88	0.060	8.15
<b>Total</b>	<b>455</b>	<b>57.32</b>	<b>4.96</b>	<b>2.85</b>	<b>0.060</b>	<b>8.51</b>
<b>High Grade Mineralised Bedded Iron</b>						
Measured	92	60.47	2.77	1.62	0.050	8.36
Indicated	232	60.29	3.03	1.91	0.055	8.00
Inferred	39	61.25	3.28	1.84	0.045	5.90
<b>Total</b>	<b>363</b>	<b>60.44</b>	<b>2.99</b>	<b>1.83</b>	<b>0.053</b>	<b>7.86</b>
<b>Channel Iron</b>						
Inferred	32	58.90	3.22	2.54	0.053	8.98
<b>Total</b>						
Measured	144	59.41	3.63	1.93	0.051	8.47
Indicated	561	58.56	4.16	2.49	0.059	8.33
Inferred	145	58.60	4.07	2.52	0.054	7.73
<b>Total</b>	<b>850</b>	<b>58.71</b>	<b>4.05</b>	<b>2.40</b>	<b>0.057</b>	<b>8.25</b>

### 5.2.1 Competent persons

The resource has been jointly signed-off between Snowden and Fortescue. Snowden has taken responsibility for the resource estimation and Fortescue has taken responsibility for the accuracy of the database and the underlying sample techniques, as this has not been subject to an independent review.

The information that relates to the Cloud Break Mineral Resources is based on information compiled by Ms Michelle Franks and Mr Stuart Robinson who are Members of The Australasian Institute of Mining and Metallurgy.

Ms Michelle Franks (MAusIMM) is employed by Snowden Mining Industry Consultants and produced the resource estimate based upon the interpretations provided by Fortescue. Ms Franks has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which she is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Ms Franks consents to the inclusion in this report of the matters based on her information in the form and context in which it appears.

Mr Stuart Robinson (FAusIMM) is a full time employee of Fortescue and provided geological interpretations for Mineral Resource estimates. Mr Robinson 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

<sup>2</sup> The information in the table has been presented as three significant figures but it is recommended that only two significant figures are used for public reporting purposes.



Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Robinson consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

## 6 References

- Mc Ewing, S 2005 "Ore Reserve Statement – Christmas Creek" SRK Consultants, October 2005.
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- Snowden, 2006a. Christmas Creek February 2006 resource estimate. Snowden Mining Industry Consultants Report for Fortescue Metals Group (Reference 4836). March 2006.
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## **CONSENT OF SNOWDEN MINING INDUSTRY CONSULTANTS**

Pursuant to section 716 of the Corporations Act 2001 (Cth) and in relation to the Offering Memorandum prepared for the Senior Secured Note issue to be done by FMG Finance Pty Ltd ("Offering Memorandum") and dated in the year 2006, we, Snowden Mining Industry Consultants consent to the inclusion in the Offering Memorandum, together with any electronic versions of the Offering Memorandum, of all statements made by us or attributed to or derived from those statements in the form and context in which they are included. This consent specifically applies the "Mining Study, Project No. 5175" dated April 2006, the "Review of December 2005 and May 2006 Ore Reserve, Project No. 5595" dated July 2006 and the most recent Mineral Resource estimates for Cloud Break and Christmas Creek deposits that have been publicly reported by Fortescue Metals Group Limited.

This consent is given on the basis a statement appears in the Offering Memorandum to the effect that:

"Snowden Mining Industry Consultants:

- (a) does not make, or purport to make, any statement in this Offering Memorandum or on which a statement made in the Offering Memorandum is based other than as specified in this Section; and
- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Offering Memorandum other than a reference to its name and a statement included in this Offering Memorandum with the consent of Snowden Mining Industry Consultants as specified in this Section.
- (c) has reviewed and approved in writing all statements attributed to Snowden and excerpts from the aforementioned documents included in the Offering Memorandum prior to publishing and distribution.

Dated this Tuesday, July 25, 2006.

Signed on behalf of Snowden Mining Industry Consultants:



**Philip Snowden**  
**Executive General Manager**

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**APPENDIX B**  
**EXECUTIVE SUMMARY OF THE WINTERS, DORSEY & COMPANY, LLC REPORT**

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FORTESCUE  
METALS GROUP  
LTD

PILBARA IRON ORE  
AND INFRASTRUCTURE  
PROJECT

INDEPENDENT  
TECHNICAL  
REVIEW

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WINTERS, DORSEY &  
COMPANY, LLC

JULY 2006

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## **I. Introduction**

Citigroup Global Markets Australia Pty. Ltd (Citigroup) retained Winters, Dorsey & Company, LLC (WDC) on November 21, 2005 to perform an independent technical review of certain areas of the Fortescue Metals Group Ltd (Fortescue) Pilbara Iron Ore and Infrastructure Project (the "Project") located in Western Australia. The areas reviewed by WDC include:

1. Geology, mineral resources and ore reserves
2. Mining
3. Ore preparation
4. Rail transport system
5. Port facility
6. Other infrastructure

The sole purpose of WDC's full report and this Executive Summary is for use by the Initial Purchasers as a qualifying report in connection with the Offerings and should not be used or relied upon for any other purpose.

WDC's full report presents the results of our review. In performance of the review, WDC sent a team of five engineers and a geologist to Fortescue's office in Perth, Western Australia, in late November and early December 2005. The team included engineers with substantial, relevant experience in the disciplines required by the scope of work. Three engineers and a geologist visited the Project site in the Chichester Range. Three engineers visited the port site at Port Hedland, and one engineer drove much of the proposed rail route from Port Hedland to the Cloud Break area. WDC's geologist spent several days at the Christmas Creek and Cloud Break sites inspecting drill core. Meetings were held with numerous members of the Fortescue staff, with representatives of WorleyParsons and with members of the staff of Snowden Mining Industry Consultants Pty. Ltd. (Snowden). Numerous documents generated by Fortescue, its engineers and consultants were reviewed. One or more members of the WDC team were in Western Australia from November 27, 2005 to December 19, 2005. WDC was given access to Fortescue's electronic data room.

In March and April 2006, two WDC engineers returned to Perth for two weeks to meet with the staffs of Fortescue and Snowden with regard to the mining feasibility study, to obtain metallurgical test results, and the most current information on the engineering, cost estimation and scheduling for the project infrastructure. Updated information was obtained on all areas of the project. Much of the project data was available in an electronic data room set up by Fortescue. Electronic copies of much of the data were provided to WDC. Four members of the WDC team returned to Perth in June 2006 and spent several days in meetings with Fortescue, WorleyParsons and Citigroup staffs, and in final analysis and review of information provided by Fortescue and its consultants. Final report preparation was completed in Perth in June 2006. Figures (diagrams) in this report were sourced from Fortescue.

The infrastructure capital cost estimate used in preparation of WDC's report was completed in March 2006 and the infrastructure operating cost estimate was updated in April 2006. The Snowden mining study was completed in April 2006. Unless otherwise stated, other information used in preparation of this report is that available as of June 30, 2006. WDC has not carried out independent drilling, assaying, or other testwork. A draft copy of this report was provided to Fortescue for comment as to any errors of fact, incorrect assumptions or material omissions.

WDC has not audited either mineral resource or ore reserve estimates or relevant production forecasts and cost estimates but has aimed to satisfy itself that all estimates for the project have been prepared in accordance with proper industry standards and are based on data that WDC considers to be of acceptable quality and reliability.



WDC's review did not include a judgment on future commercial terms or prices for iron ores to be produced by Fortescue, nor did it include a judgment on future commercial terms and prices for consumables required for the operations which are important cost drivers such as tires for mining equipment, diesel fuel, and electrical energy.

The opinions and conclusions in WDC's full report and in this Executive Summary are based solely on the information received from Fortescue Metals Group Ltd and its engineers and consultants (collectively Fortescue). No attempt was made to independently verify basic information such as drillhole assay data, rock densities, topographic information, or ownership of mineral rights. WDC has relied exclusively on the information provided by Fortescue. The opinions and conclusions in WDC's report and this Executive Summary assume the truth, accuracy and completeness of the information provided orally and in writing by Fortescue, and assume that Fortescue records reviewed by WDC are true and accurate. They further assume that Fortescue did not fail to give WDC any facts or information necessary in order to make the facts and information given to WDC not misleading.

Fortescue has represented in writing that to the best of its knowledge, it has provided WDC with all material information relevant to the project described in WDC's full report and this Executive Summary.

With respect to the WDC full report and this Executive Summary and use thereof, Fortescue has provided WDC with a letter of indemnity agreeing to indemnify and hold harmless WDC, its shareholders, directors, officers, and associates against any and all losses, claims, damages, liabilities or actions to which they or any of them may become subject under any securities act, statute or common law and will reimburse them on a current basis for any legal or other expenses incurred by them in connection with investigating any claims or defending any actions.

WDC's full report and this Executive Summary are provided to Citigroup in connection with the debt financing and should not be used or relied upon for any other purpose. They do not constitute a legal or technical audit. Neither the whole or part of WDC's full report or this Executive Summary nor any reference thereto may be included in or with or attached to any document or used for any purpose without WDC's written consent to the form and context in which it appears.

This Executive Summary is a summary report. For a full discussion of the aspects of the project that fall within WDC's scope of work, including the issues noted herein, the reader should refer to the full report. This Executive Summary is qualified by reference to such full WDC report in its entirety.

### ***Statement of Independence***

Neither WDC nor any member of the WDC team who participated in this review has ever owned any shares or other economic interest in Fortescue or the Project. Neither WDC nor any member of the WDC team who participated in this review has been promised any compensation by any person or entity whomsoever for his contribution to this report, other than his normal professional compensation and reimbursement of out-of-pocket expenses.

Throughout this report tonnes are metric tonnes of 2,204.6 lbs. All dollars are Australian dollars, unless otherwise stated. The abbreviation WP is used for WorleyParsons. Mtpa means millions of tonnes per annum (year).

## 2. Conclusions and Issues

Fortescue plans to develop a surface mining operation and to construct ore preparation facilities, a 260-km heavy haul railroad, and port facilities capable of producing and loading 45 Mtpa of iron ore into ships of 50,000 to 270,000-DWT capacity for delivery to Asian markets.

As a result of WDC's review, based on the information provided by Fortescue and its consultants, WDC has the following opinions:

- The geological work done by Fortescue, which is the basis for the estimates of mineral resources and ore reserves, is of very high quality and has been done in a reasonable, competent, and professional manner and provides a sound basis for the resource modeling and estimation done by Fortescue's consultant, Snowden.
- The mineral deposit modeling and resources estimation done by Snowden has been done in a reasonable, competent, and professional manner. WDC has found no reason to question Snowden's estimates of resources or Snowden's and Fortescue's estimates of proved and probable ore reserves. Fortescue and Snowden have made the mineral resources and ore reserves estimates for the Cloud Break and Christmas Creek iron ore deposits in accordance with the requirements of the Australasian Code for Reporting of Mineral Resources and Ore Reserves ("JORC Code (2004)"), prepared by the Joint Ore Reserves committee of The Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia, effective December 2004. It should be noted, however, that mineral resources and ore reserves, no matter how carefully estimated, cannot be measured exactly, since estimation of resources and reserves involves subjective judgments. The estimates by Fortescue and Snowden presented in this Executive Summary remain subject to revision.
- The mining study completed by Snowden in April 2006 is well done. The proposed equipment configurations are all proven technology, but the combination is unique for an iron ore operation. The mine capital cost estimate is a function of the required equipment levels and vendor quotes for the equipment. WDC has found the estimates to be detailed and complete. The mine operating cost calculations by Snowden exceed the detail necessary for a feasibility study and are suitable for budgetary estimates. WDC has checked the components used to prepare the operating cost estimate and found them to be reasonable and complete. WDC did not do independent detailed cost estimates.
- Subsequent to completion of the Snowden Definitive Mining Feasibility Study, Fortescue entered into a long-term mining alliance with Roche Mining, a major Australian provider of contract mining services. This agreement should help alleviate potential problems in the early years of mining with timely delivery of certain large equipment units and with tire supply. With the mining alliance in place, Fortescue should focus its efforts in the mining area on detailed mine planning through 2008 and finalization of mining cost estimates.
- In the initial years of ore production, the ore preparation plant will consist of a crushing, screening and desanding plant at the mine area with additional screening and blending at the port. The crushing, screening, and material handling equipment has a long history of use in the Pilbara iron ore district. The ore preparation plant and equipment should be capable of the throughput rates necessary to achieve Fortescue's planned fines and lump products production rates, in aggregate 45 Mtpa. The ore preparation plant capital cost estimate procedures follow general engineering practices and realistic assumptions have been used. In WDC's opinion the Fortescue ore preparation operating cost estimate is based on reasonable information and assumptions.
- The proposed railroad facilities meet industry-accepted design standards for heavy haul railways, and will likely be capable of meeting industry-accepted performance levels and of delivering 45 Mtpa of iron ore from the mine to the port. A detailed estimate of railway capital costs has been assembled by

the WorleyParsons engineers and Fortescue's financial managers. The information has been captured in detailed and well constructed spreadsheets as a control estimate and appears to be complete. The railroad operating cost estimate was made by Fortescue management based on a 2005 ProMet Engineers study and extensive operational experience in the Pilbara. The railroad operating cost estimate appears to be well prepared and thought out.

- The proposed port facilities meet industry-accepted design standards and will likely be capable of meeting industry-accepted performance levels and of delivering 45 Mtpa of iron ore into ships. The proposed maritime structures follow conventional designs similar to other iron ore exporting facilities on the Western Australian coast and elsewhere. The port capital cost estimate is based on an engineering, procurement, and construction management plan. The basic estimate appears to be well prepared and thought out. The port operating cost estimate also appears to be well prepared and thought out.
- The project schedule calls for first shiploading in late January 2008 and completion of commissioning and performance testing in mid-March 2008. The overall scheduled completion date is achievable but the project schedule is definitely "fast track" and will require an aggressive approach and careful monitoring by the management team to avoid slippage. Fortescue and WorleyParsons staffs appear to be taking appropriate steps to manage the infrastructure construction schedule. Railroad earthworks and bridge installation are critical path items. The permit to begin earthworks could be delayed into September 2006. Receipt of the Special Railway License is currently not expected until the end of September 2006. Delays in obtaining the permit are largely not within Fortescue's control. A delay of up to two months in first ship loading is possible, particularly if the permit needed to start railway earthworks continues to be delayed. If the receipt of the permit needed to start railway earthworks is delayed beyond September 2006, it is reasonable to expect that the project schedule and capital cost will be adversely affected. The mining alliance agreement with Roche also is critical to making the scheduled first shiploading date.
- The Snowden mine capital and operating cost estimates are based on the mine plan in the Snowden report and on ownership and operation of all mining equipment by Fortescue. They are very detailed and more akin to an operating budget than a feasibility study estimate. WDC is confident that Snowden did not omit any significant items. Subsequent to publication of the Snowden mining study, Fortescue entered into a mining alliance agreement with Roche Mining, a major Australian contract miner. This will result in higher effective cash mine operating costs per tonne of material mined than would be the case if all of the mining equipment were owned and operated by Fortescue, however it will help to alleviate potential problems with timing of equipment delivery and tire supply. It is WDC's understanding that a meeting of the mining alliance was held on June 29, 2006 to begin working on new mining cost estimates as well as other mining issues, such as detailed mine planning.
- The project infrastructure includes the mine/port ore handling facilities, and outside-battery-limits infrastructure such as electrical power distribution, water supply and treatment and other facilities. The project infrastructure capital costs detailed in Table 11 in Section 11.0 of this Executive Summary are taken from the project control budget as it stood at March 1, 2006. Certain criteria used by WorleyParsons in preparing the estimate are listed in Section 11.0 of this Executive Summary. The March 1, 2006 base cost estimates appear to have been prepared according to standard engineering principles and to be complete when considered in conjunction with the list of exclusions as summarized in Table 11. The estimate does not include working capital, interest during construction, or sunk costs. The infrastructure capital cost of \$2.25 billion includes a contingency of \$198 million in addition to a design growth allowance of \$70 million. In WDC's opinion, the contingency was reasonable and appropriate as of March 1, 2006, taking into account the level of engineering completed to that date. The \$198 million contingency is a risk provision designed to cover additional project costs including unforeseen and unexpected contract variations, schedule delays (such as typical adverse weather events

in the region) or late equipment and construction material deliveries. In WDC's opinion it is reasonable to expect that unforeseen events (such as those this provision is designed to cover) will occur during construction and should be provided for. In WDC's opinion this contingency is appropriate to cover these events, however it is not adequate to cover any extreme unforeseen events that could result in longer-term project delays.

- A cash operating cost estimate for rail operations, port operations, mine infrastructure, and administration was prepared by ProMet Engineers and submitted in a November 2005 report. The estimate was updated by Fortescue in March 2006. The proposed ore preparation plant was moved to the mine site between issuance of ProMet's report and the March 2006 operating cost estimate update. The operating cost estimate has been prepared in a thorough manner, when considered in conjunction with the criteria in Table 15 in Section 12.0 of this Executive Summary. WDC takes no exceptions to the estimate.

WDC has identified a number of issues which potentially could impact the project. Table 1 summarizes the issues with a description of each, a reference to the relevant sections of the full WDC report, mitigation, and WDC's opinions or conclusions as to the mitigating steps being taken. Please refer to the balance of this Executive Summary and to the relevant sections of the full WDC report for further discussion.

In July 2006 WDC checked certain inputs to Fortescue's financial model of the project. The inputs checked by WDC were limited to items in the scope of WDC's report, and included the mine production schedule, mine capital expenditures, initial infrastructure capital expenditures, mine cash operating costs, and infrastructure cash operating costs. The costs checked by WDC did not include sunk costs incurred to date for the project, working capital, interest during construction, or corporate overhead nor did they include any costs which Fortescue may incur to find and develop additional resources or ore reserves. Capital expenditures for mining equipment and the crushing and screening plant included in the Snowden report and in the infrastructure capital expenditure estimate are replaced by leasing costs in the financial model. WDC was not asked to review any leasing costs and did not do so.

The capital expenditure for the beneficiation plant currently planned to be in operation in 2015 is shown as \$360 million in the financial model versus the \$169 million preliminary estimate by Roche given to WDC. According to feedback from Fortescue, the amount in the model includes "other items associated with the wet beneficiation plant". This expenditure will be incurred several years from now and the plant design and estimate will undoubtedly change between now and the start of construction of the plant. In WDC's opinion, the \$169 million preliminary estimate was reasonable for the items covered by Roche and for the level of engineering done at the time the estimate was made.

Where the model scenario differs from the assumptions in the reports and estimates reviewed by WDC, for example leasing versus purchasing of equipment and contract mining versus an owner-operated mining scenario, there will obviously be differences between the model inputs and the costs reviewed by WDC. The mining cost for 2006, 2007, and 2008 has been increased substantially in the model to reflect the contract mining scenario.

Other than the points raised above, in WDC’s opinion there do not appear to be any material differences between the inputs to the financial model reviewed by WDC and the data reviewed by WDC for WDC’s report.

**Table 1—Project Issues**

<u>Issue</u>	<u>Description</u>	<u>Reference Sec in WDC Report</u>	<u>Mitigation</u>	<u>WDC Opinion and Conclusions</u>
1. Delivery Time for Mining Equipment	Some equipment units selected in Mining Feasibility Study cannot be delivered in time to meet ore shipping schedule.	Section 2.0, 5.0 and 10.0	PMA and alternative equipment units. Under the PMA, to the extent Fortescue does not have all its own mining equipment, Roche will supply the equipment as required to meet the date for ore onto the first ship in January 2008. In addition, Fortescue is getting quotes on alternative equipment and trying to locate equipment it can lease.	The steps Fortescue is taking are reasonable. Roche has provided a letter giving assurance that it will have the equipment on site for as long as needed to accomplish the necessary mining to achieve the current product sales targets.
2. Tires	Worldwide shortage of tires for large mining equipment units.	Section 2.0, 5.0 and 10.0	PMA and alternative supplier in China. Roche has assured Fortescue it will have tires for its equipment. In addition, Hiflex Australia have completed a joint venture with Pingan Tires of China and will supply Fortescue beginning in the fourth quarter of 2006.	The steps Fortescue is taking are reasonable. WDC is not familiar with Hiflex Australia or Pingan Tires. Pingan’s first production run of large cross ply tires is currently undergoing operating trials. If Chinese supply were not available, or if the Chinese tires fail their trials this could be a serious problem.
3. Mine Detail Engineering	Detailed mine plans, mine production schedules, including ramp-up schedule, and cost estimates need to be made.	Section 5.0 and 10.0	Fortescue and PMA do the work. Work should include detailed plans through end of 2008, including production schedule, equipment requirement and operating costs.	Pending. Should be completed by October 1, 2006. The scheduling work done by Snowden is reasonable and is appropriate for the stage of work represented by Snowden’s report. The PMA and other steps being taken (see 1., above) should make it possible to achieve the preproduction ramp-up requirements.

<u>Issue</u>	<u>Description</u>	<u>Reference Sec in WDC Report</u>	<u>Mitigation</u>	<u>WDC Opinion and Conclusions</u>
4. Railroad Schedule	Permitting issues are holding up start of earthworks. Bridge works are becoming critical. Track laying contract could become critical.	Section 2.0 and 7.0	Bridge installation and earthworks contracts to be combined. Fortescue to supply prefabricated bridge spans to contractor. Work multiple faces and shifts.	Fortescue is taking reasonable steps. Delays due to permitting are not within Fortescue's control. Permit to begin earthworks could be delayed into September 2006. Receipt of Special Railway License is currently not expected until the end of September 2006.
5. Permitting Schedules	Permitting which would permit start of railway earthworks has been delayed.	Section 7.0	Fortescue should continue to make timely responses to any information requests from Government.	Largely not within Fortescue's control.
6. Mine Area Power Plant	Decision on plant type and capacity and supplier need to be made. Permitting is required for diesel plant.	Section 5.0 and 12.0	Fortescue mining staff and Team 45 staff need to work together to make decisions.	Decision on initial diesel-fired plant should be made by end of July 2006 if possible. Permitting for diesel plant is achievable but process should be started.
7. Cash Operating Costs	Cash cost of mining per tonne of material moved in initial months will be higher than Snowden estimate due to contractor charges for equipment and profit and higher electrical energy costs.	Section 5.0 and 12.0	Fortescue to acquire its own mining equipment as soon as possible. Long-term solution to power supply must be decided on.	Fortescue is following up on alternatives on both issues and continuing to negotiate with Roche. The financial model has been adjusted to account for higher costs in the initial year.
8. Capital Expenditure Estimate	Delays in receipt of permits or financing may result in higher costs when contracts are finally placed.	Various	Find ways to accelerate work when permits are issued. Work with vendors to minimize cost impacts.	Fortescue is following up on ways to make up for potential delays. To some degree, this is not within Fortescue's control.
9. Project Schedule	Control schedule calls for completion of loading of first ship on January 23, 2008. Schedule is fast track.	Section 2.0, 7.0 and 11.0	Fortescue has developed a more aggressive schedule than the control schedule. Plan alternative approaches to work to make up for delays in permitting, procurement, and construction.	Schedule is aggressive but doable. Fortescue is taking appropriate steps. A delay in loading the first ship of one to two months could occur.

### 3. Project Description and History

#### 3.1. Description

The goal of Fortescue’s Pilbara Iron Ore and Infrastructure Project is to produce 45 Mtpa of saleable iron ore. Initially two fines products will be produced, Fortescue High Grade Fines containing approximately 60.2 percent iron and Fortescue Super Value Fines containing approximately 58.7 percent iron. Production is planned to build up to a rate of 45 million tonnes per year within fifteen months from the commencement of operations and then to continue at that rate. In the third year of marketable ore production, a Fortescue High Grade Lump ore product, containing approximately 61.1 percent iron, will also be produced. Table 2 compares projected grades of Fortescue’s three planned products with typical Brockman and Marra Mamba ores of the Hamersley Province. Initial mining in the province focused on Brockman ores, but in recent years Marra Mamba ores have been of rapidly growing importance.

Most of the bedded iron ore (as opposed to channel iron ore) production to date from the Hamersley Province has been from the Brockman Iron Formation. Examples of mines producing ores from the Brockman Iron Formation are Tom Price (Rio Tinto), Paraburdoo (Rio Tinto), and Mount Whaleback (Newman area, BHP Billiton). The Marra Mamba Iron Formation is lower in the geological sequence (older in age) than the Brockman Iron Ore Formation.

**Table 2—Comparison of Projected Fortescue Marketable Ore Grades with other Typical Pilbara Ores**

<u>Brand</u>	<u>Fe</u> %	<u>SiO<sub>2</sub></u> %	<u>Al<sub>2</sub>O<sub>3</sub></u> %	<u>P</u> %	<u>S</u> %	<u>LOI<sub>Tot</sub></u> %
High Grade Lump .....	61.1	2.8	1.3	0.050	0.025	7.60
High Grade Fines .....	60.2	3.4	1.9	0.051	0.250	7.70
Super Value Fines .....	58.7	4.4	2.20	0.054	0.030	8.00
Typical Brockman Lump .....	65.0	3.0	1.40	0.055	0.010	2.0
Typical Brockman Fines .....	62.6	4.7	2.3	0.070	0.01	3.0
Typical Marra Mamba Lump .....	62.8	2.21	1.25	0.050	0.016	6.2
Typical Marra Mamba Fines .....	61.5	3.10	2.05	0.070	0.022	6.5

Source: Fortescue Metals Group Limited

Marra Mamba ores usually contain a much higher proportion of the hydrated iron oxides, (goethite and ochreous goethite) than the Brockman ores. This is their differentiating feature. Goethite has more “chemically trapped” water than equivalent Brockman hematite ores. In addition to higher chemically combined water, the Marra Mamba ores typically are more friable, have lower alumina in the fines products, and lower phosphorus contents than Brockman ores.

Marra Mamba ore has been produced in the Hamersley Province since the 1970s. The first production was from BHP Billiton’s Orebody 29, a satellite deposit of Mount Whaleback, commencing in 1978. Rio Tinto’s Marandoo mine, developed in 1994 and 1995 was the second Marra Mamba development. On July 31, 2002 the first shipment of 95,000 tonnes of Marra Mamba ore from Robe River’s (53 percent Rio Tinto) West Angelas mine left the port at Camp Lambert for Japan. BHP Billiton’s MAC Deposit C development had the largest Marra Mamba iron ore reserve in the Pilbara region prior to Fortescue’s ore reserve announcement in late 2005. Production at MAC Deposit C started in September 2003. The Hope Downs project is another major Marra Mamba ore project whose development and operation will be managed by Rio Tinto.

The Fortescue project will be based on surface mining operations, initially at the Cloud Break and then Christmas Creek deposits. Several open pits will be in production within the two deposits at any given time in

order to reach the goal in the third year of production of 45 Mtpa of marketable iron ore loaded into ships. The mines will employ large-scale production equipment. Because of the nearly flat lying geometry of the orebodies and their shallow depth of burial beneath overburden, methods similar to those used in surface coal mining operations, such as bucketwheel excavators for overburden removal, will be used for much of the mining.

Ore preparation initially will consist of straightforward crushing and screening and desanding operations. Fortescue currently plans to construct a gravity beneficiation plant to be in operation in 2015. This will permit Fortescue to meet its high grade ore production goals at the overall production rate (High Grade Lump and Fines and Super Value Fines) of 45 Mtpa.

The ore will be loaded into railcars for haulage on a new 260-km railroad to a new port facility to be constructed at Port Hedland, Western Australia. The rail and port facility designs take advantage of years of experience of other operators in the area, are conventional in methods and equipment, and will have the capability to deliver 45 Mtpa of iron ore to the port, stockpile it, and load it into ships. The shiploading berth and marine structures are intended to accommodate 50,000 DWT to 270,000 DWT vessels.

### **3.2. History**

Fortescue emerged in its current form in mid-2003 and has been focused on exploration and evaluation of its iron ore tenements in the Pilbara Region of Western Australia since that time. Fortescue has Australia's largest iron ore tenement portfolio—more than 33,800 square kilometers.

During early 2004, Fortescue began an exploration and drilling program in the Chichester Range, targeting enriched iron ore in the Nammuldi Member at the base of the Marra Mamba Formation. A major reverse circulation drilling program began in April 2004. During the course of 2004, Fortescue discovered the Cloud Break and Christmas Creek orebodies.

In July 2004 WorleyParsons was appointed study manager for the Pilbara Infrastructure Definitive Feasibility Study (DFS). The DFS was completed in August 2005, under the management of WorleyParsons Services Pty Ltd.

Enabling legislation was passed by the Western Australian Parliament on November 26, 2004 to bring "The Port and Rail State Agreement Act 2004" into law providing the requisite legislative platform of land access and operational tenure for the port and rail components of Fortescue's Project.

On December 10, 2004, the Australian Federal Minister for Industry, Tourism and Resources granted the project Major Project Facilitation (MPF) status.

In late 2005, Fortescue signed Land Access Agreements with each of the four Native Title Claimant Parties (NTCPs). Under the agreements the NTCPs consented to "whole of claim" tenure for the life of the project in exchange for consideration as described in Section 13.0 of this report.

On October 6, 2005 environmental approval for Stage A of the project was received, followed by approval on December 20, 2005 of Stage B. Stage A includes the development of port facilities in Port Hedland and the mainline north-south rail corridor from Port Hedland to just north of the Chichester Range. Stage B includes an east-west railway corridor extending from the mainline east along the footslopes of the Chichester Range to the Christmas Creek Resource. Stage B also includes the mining area applications of Christmas Creek in the Chichester Range and Mindy Mindy located on the edge of the Hamersley Ranges.

On October 31, 2005, Fortescue announced probable ore reserves estimated at 384 million tonnes at Christmas Creek. On December 1, 2005, Fortescue announced an increase in probable reserves at Christmas Creek to 619 million tonnes, and probable reserves at Cloud Break of 447 million tonnes, or 1,066 million tonnes in aggregate.



On January 20, 2006 mining leases were granted by the Department of Industry and Resources of the State of Western Australia for over 95 percent of the currently more than two billion tonnes of indicated and inferred mineral resources. Approval of the balance is expected soon.

On February 5, 2006 approval was received from the Port Hedland Port Authority for commencement of construction to allow preliminary earthworks at Port Hedland, including site preparation for dredging and preparation of a laydown area. A groundbreaking ceremony was held on February 8, 2006. The port dredging contract was entered into with Jan de Nul NV on March 28, 2006.

On February 13, 2006, Fortescue announced an increase in the indicated resource estimate to 1.76 billion tonnes in aggregate for Christmas Creek and Cloud Break. On March 7, 2006, Fortescue announced an increase in Cloud Break resources to 850 million tonnes, including 144 million tonnes of measured resources and 561 million tonnes of indicated resources. This brought the measured, indicated and inferred resources at Cloud Break and Christmas Creek to 2.27 billion tonnes in aggregate.

By late March 2006, Fortescue had signed 25 provisional iron ore purchase agreements with Chinese parties representing product offtake of 36.4 Mtpa.

Ministerial environmental approval for Cloud Break was received in March 2006.

The mining feasibility study, an update of the infrastructure definitive feasibility study, the infrastructure control capital budget, and a revised infrastructure project schedule were issued in March and April 2006.

On May 31, 2006, Fortescue announced an estimated proven ore reserve at Cloud Break of 121 million tonnes with average grades of 59.3 percent iron, 3.82 percent silica, 1.97 percent alumina, 0.050 percent phosphorus and 8.47 percent loss on ignition. This reflects a conversion ratio of 84 percent of the Cloud Break measured resource to proven reserves.

On June 6, 2006, Fortescue announced it has entered into a long-term mining alliance with Roche Mining to be known as the Pilbara Mining Alliance. Roche is a large, experienced Australian contract miner.

**4. Mineral Resources and Ore Reserves**

Fortescue’s tenements in the Pilbara region exceed 33,800 sq. km. Iron mineralization of the Marra Mamba type is recognized over a strike length of some 200 km. Outside the Christmas Creek and Cloud Break areas, limited exploration has been done. For example, Mt. Lewin area to the east has inferred resources. Since the focus of initial mine development will be the Cloud Break and Christmas Creek deposits. This report focuses on those two deposits.

Fortescue and Snowden have made mineral resources and ore reserves estimates for the Cloud Break and Christmas Creek iron ore deposits in accordance with the requirements of the Australasian Code for Reporting of Mineral Resources and Ore Reserves (“JORC Code (2004)”), prepared by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia, effective December 2004.

The estimated mineral resources for Christmas Creek and Cloud Break are shown in Tables 3 and 4. Under the JORC Code (2004) mineral resources are classified as inferred, indicated, and measured in order of increasing geological confidence.

The estimated ore reserves as of December 1, 2005 for Christmas Creek and Cloud Break are shown in Table 5. Under the JORC Code (2004), ore reserves are classified as probable and proved in order of increasing confidence. Indicated resources cannot be converted to an ore reserve classification higher than probable. Only measured resources can be converted to proved ore reserves.

**Table 3—February 2006 Christmas Creek Mineral Resources Summary—Tonnes in Millions (Mt)**

<u>Category</u>	<u>Mt</u>	<u>Fe</u>	<u>SiO<sub>2</sub></u>	<u>Al<sub>2</sub>O<sub>3</sub></u>	<u>P</u>	<u>LOI</u>
		<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Hardcap Mineralization						
Inferred . . . . .	21	57.1	5.72	3.37	0.040	7.75
Bedded Iron (no cut-off used)						
Measured . . . . .	2	57.9	4.39	2.91	0.044	7.02
Indicated . . . . .	665	57.4	4.94	2.82	0.053	7.77
Inferred . . . . .	211	57.0	4.65	2.61	0.063	8.15
Total . . . . .	878	57.3	4.87	2.77	0.055	7.86
High Grade Mineralized Bedded Iron (no cut-off used)						
Measured . . . . .	4	61.5	2.73	2.00	0.035	6.11
Indicated . . . . .	424	60.2	3.26	2.01	0.051	7.46
Inferred . . . . .	76	60.8	3.16	1.84	0.061	6.26
Total . . . . .	503	60.3	3.24	1.99	0.053	7.27
Channel Iron (reported below 3.5% Al <sub>2</sub> O <sub>3</sub> cut-off)						
Inferred . . . . .	13	58.0	3.33	2.3	0.043	9.98

The drillhole database used for the estimate in Table 3 contains 3,727 drillholes for a total of 111,493 meters of assayed length.

There are 17,069 meters of assayed length within the mineralized domains.

**Table 4—March 2006 Cloud Break Mineral Resource Summary—Tonnages in Millions (Mt)**

Category	Mt	Fe	SiO <sub>2</sub>	Al <sub>2</sub> O <sub>3</sub>	P	LOI
		%	%	%	%	%
Bedded Iron (no cut-off used)						
Measured	52	57.56	5.13	2.47	0.053	8.68
Indicated	328	57.34	4.96	2.91	0.062	8.57
Inferred	74	57.07	4.86	2.88	0.060	8.16
Total	455	57.32	4.96	2.85	0.060	8.51
High Grade Mineralized Bedded Iron (no cut-off used)						
Measured	92	60.47	2.77	1.62	0.050	8.36
Indicated	232	60.29	3.03	1.91	0.055	8.00
Inferred	39	61.25	3.28	1.84	0.045	5.90
Total	363	60.44	2.99	1.83	0.053	7.86
Channel Iron (no cut-off used)						
Inferred	32	58.90	3.22	2.54	0.053	8.98

The drillhole database used for the estimate in Table 4 contains 3,258 drillholes for a total of 98,000 meters of assayed length.

There are 19,929 meters of assayed length within the mineralized domains.

**Table 5—Fortescue Probable Ore Reserve Estimate for Christmas Creek and Cloud Break Deposits (December 1, 2005)**

	Run of Mine Ore	Fe	SiO <sub>2</sub>	Al <sub>2</sub> O <sub>3</sub>	P	LOI	S	MnO
	Mt	%	%	%	%	%	%	%
Cloud Break	434	59.05	4.0125	2.1975	0.053	8.27	0.03	0.48
Christmas Creek	619	59.1	4.3	2.35	0.05	7.25	0.03	0.92

In October 2005, Snowden advised Fortescue that closer spaced drilling was required to demonstrate the continuity of mineralization necessary to upgrade the classification of portions of mineral resources at Christmas Creek and Cloud Break to the measured category, which in turn could permit reclassification of some of the probable ore reserves to proved ore reserves. Fortescue completed the in-fill drilling program in December 2005. Due to the time required to drill the holes, analyze the samples, incorporate the results into the geological and mineralization models of the deposits, and perform the necessary mine design and ore reserve estimation, no estimates of proved ore reserves were available for Snowden’s mine planning and ore reserve estimation for Fortescue’s mining feasibility study. The mining feasibility study and Section 5.0 of this Executive Summary are based on the indicated mineral resources and probable ore reserves estimates developed in the second half of 2005.

The ore reserve estimates made by Fortescue and Snowden are not intended to conform to the requirements of United States Securities and Exchange Commission (SEC) Industry Guide 7. In WDC’s opinion, the technical requirements met by Fortescue and Snowden under the JORC Code would satisfy the SEC’s technical requirements for classification of resources as proven and probable reserves. However, it is uncertain what iron ore pricing formula the SEC would impose on iron ore reserve estimates of a startup company. In the case of certain other metals, the SEC has required a three-year historical average pricing formula, but it is uncertain whether the SEC would seek to impose some such formula on iron ore reserves. For this reason, it is uncertain what the SEC’s view would be on Fortescue’s ore reserve estimates.

In WDC's opinion, the geologic work, mineral resource modeling and estimation, and proved and probable ore reserve estimation by Fortescue and Snowden have been done in a competent and reasonable way. WDC has found no reason to question Snowden's estimates of resources or reserves. The geologic work done by Fortescue is of very high quality and provides a sound basis for the resource modeling, resource and reserve estimation done by Snowden. It should be noted that mineral resources and ore reserves, no matter how carefully estimated, cannot be measured exactly, since estimation of resources and reserves involves subjective judgments. The estimates in Tables 3, 4, and 5 remain subject to revision.

Subsequent to completion of the Mining Study, on May 31, 2006 Fortescue announced that 120.6 million tonnes of measured resources of the Cloud Break deposit have been converted to proved reserves. The average grades of the proved reserves are 59.3 percent iron, 3.82 percent silica, 1.97 percent alumina, 0.05 percent phosphorus and 8.47 percent loss on ignition. Within the proved reserve, there is a high-grade domain containing an estimated 68.6 million tonnes with an average grade of 60.5 percent iron. The proved ore reserve estimate was made by Fortescue from information prepared by Snowden. The Competent Person statement in support of the proved ore reserve was compiled by Jim Williams, Head of Mining of Fortescue, and states that the estimate was carried out in accordance with the JORC Code (2004). WDC has reviewed the estimate of proved ore reserves and has found no reason to question the estimate. In WDC's opinion the estimate has been done in a competent and reasonable way.

**5. Mining Operations**

The proposed Chichester Range mining operation consists of the Cloud Break and Christmas Creek deposits which outcrop to the north, strike essentially east-west, and dip flatly to the south under progressively thicker overburden cover. Overburden depth does not exceed 40 meters and this geometry is well suited to techniques similar to those used in coal mining. The operation is summarized in terms of material movement, mine equipment requirements, mine capital costs, and mine cash operating costs in Table 6.

The selected mining method consists of “panels” (200 meters wide by 300 meters long) oriented with the long axis parallel to the strike of the iron formation. Mining of detrital overburden is initiated in a starting panel and progresses along strike. When the overburden mining has advanced into the second 300-meter panel, hardcap waste mining is initiated in the first panel and exposes ore. Once the overburden and hardcap mining has progressed into the third and second panels, respectively, ore mining may be initiated in the first panel. This three-panel (900-meter) configuration is advanced along strike, creating a strip up to four kilometers long. The initial strip is developed by conventional shovel/truck mining, with waste hauled to dump areas outside final pit limits.

**Table 6—Mining Summary**

**Material Movement and Mining Rates**

Total material mined .....	5,585 dmt
Mine plan duration .....	19 years
Average annual rate .....	294 tpa or 0.817 tpd @ 360 days/year
Peak annual rate (Period 7) .....	492 tpa or 1.367 tpd @ 360 days/year
Total ore mined .....	990 dmt or 0.145 tpd @ 360 days/year
Average waste-to-ore ratio .....	4.64 to 1.00
Total ore rail shipped .....	852 tonnes

**Mine Equipment Requirements**

Item	Unit Price	Total Units Required (includes replacements)								
		Cloud Break			Christmas Creek			Total		
		Purch.	Hire	Total	Purch.	Hire	Total	Purch.	Hire	Total
Drill (production) Infinity SKF (165 mm) .....	1.73	7	3	10	7	2	9	14	5	19
Drill (grade control) Cubex QXR920 (115 mm) ....	1.39	1	0	1	1	0	1	2	0	2
BWE and beltwagon .....	29.05	2	0	2	2	0	2	4	0	4
Mobile stacking conveyor (MSC) .....	28.87	3	0	3	4	0	4	7	0	7
Hydraulic shovel Dresser PC8000 (32 cu.m) .....	12.90	6	0	6	6	0	6	12	0	12
Hydraulic shovel Dresser PC5500 (20 cu.m) .....	7.68	3	0	3	1	0	1	4	0	4
Trucks Dresser 830E (220-tonne) .....	4.46	10	12	22	8	7	15	18	19	37
Trucks Caterpillar 777D (90-tonne) .....	1.60	16	10	26	28	21	49	44	31	75
Surface Miner Wirtgen 3700 .....	5.89	10	0	10	27	0	27	37	0	37
Overland ore conveyor (per km) .....	4.57	0	0	0	0	0	0	89.5	0	89.5
Wheel loader Komatsu WA1200-3 (13-cu.m) .....	5.13	3	0	3	4	0	4	7	0	7
Wheel loader Komatsu WA900-3 (9-cu.m) .....	2.32	4	0	4	5	0	5	9	0	9
Track dozer Komatsu D575A-3 (858-kW) .....	3.45	1	0	1	1	0	1	2	0	2
Track dozer Caterpillar D10 (433-kW) .....	1.80	6	3	9	6	3	9	12	6	18
Wheel dozer Caterpillar 854G (597-kW) .....	2.49	3	0	3	1	0	1	4	0	4
Backhoe Dresser PC1250 (3.4 cu.m) .....	1.45	1	1	2	1	1	2	2	2	4
Scraper Cat 637E (18.3-cu.m) .....	2.06	2	1	3	1	2	3	3	3	6
Grader Komatsu GD825A (4.9-m) .....	0.99	4	2	6	3	3	6	7	5	12
Water cart Caterpillar 777 (90,000-lit) .....	2.05	3	2	5	1	3	4	4	5	9

**Table 6—Mining Summary (Cont'd.)**

<u>Mine Capital Costs</u>	<u>Cloud Break</u>			<u>Christmas Creek</u>			<u>Project Total</u>		
	<u>Base</u>	<u>Hire</u>	<u>Adjstd</u>	<u>Base</u>	<u>Hire</u>	<u>Adjstd</u>	<u>Base</u>	<u>Hire</u>	<u>Adjstd</u>
Initial capital									
Year 1 .....	117	(4)	113	0	0	0	117	(4)	113
Year 2 .....	223	(45)	178	0	0	0	223	(45)	178
Year 3 .....	172	(12)	160	0	0	0	172	(12)	160
Year 4 .....	0	0	0	0	0	0	0	0	0
Subtotal .....	512	(61)	451	0	0	0	512	(61)	451
Balance .....	278	(28)	250	1,123	(88)	1,035	1,401	(116)	1,285
<b>Total Mine Capital .....</b>	<b>790</b>	<b>(89)</b>	<b>701</b>	<b>1,123</b>	<b>(88)</b>	<b>1,035</b>	<b>1,913</b>	<b>(177)</b>	<b>1,736</b>

**Base total of \$1,913 = per tonne of total material mined**  
**Adjstd total of \$1,736 = per tonne of total material mined**

<u>Cost Center</u>	<u>Cloud Break</u>			<u>Christmas Creek</u>			<u>Project Total</u>			<u>% of Project Total</u>	
	<u>dmt</u>	<u>\$/dmt</u>	<u>\$</u>	<u>dmt</u>	<u>\$/dmt</u>	<u>\$</u>	<u>tonnes</u>	<u>\$/dmt</u>	<u>\$</u>	<u>tonnes</u>	<u>cost</u>
Clear & Grub .....	1,150		34			47			81		1.4%
Alluvial mining (both BWE & shovel/truck) .....	1,056	0.24	280	1,084	0.30	327	2,234	0.27	607	40.0%	10.4%
Hardcap mining (includes internal waste) .....	412	0.85	896	1,306	0.64	830	2,362	0.73	1,726	42.3%	29.7%
Ore mining .....		1.62	668	578	2.18	1,259	990	1.95	1,927	17.7%	33.2%
Transport (OLC & MSC) .....			102			505			607		10.4%
Overheads (includes ALL maintenance) .....			459			404			863		14.9%
Base .....	2,618	0.93	2,439	2,968	1.14	3,372	5,586	1.04	5,811	100.0%	100.0%
Hire cost adjustment .....			160			243			403		
Adjusted .....	2,618	0.99	2,599	2,968	1.22	3,615	5,586	1.11	6,214		
							<b>Base</b>	<b>Adjstd</b>			
Cost per tonne of total material mined .....							1.04	1.11			
Cost per tonne ore mined .....							5.87	6.28			
Cost per tonne ore rail shipped .....							6.82	7.29			

On completion of the overburden in the first strip, the stripping fleet returns to the origin and begins a second strip immediately to either side of the first panel either down-dip (south) or up-dip (north) of the initial panel. Waste from the second and third slots is deposited in the first panel/slot behind the ore mining. Panels are sequentially developed down (south) and up dip (north) until physical and/or economic limits are reached. In areas with a suitable strike length for efficient operations (greater than 900 meters), compact bucket wheel excavators (BWE) with mobile stacking conveyors (MSC) are employed for low-cost overburden mining. All waste in small pits and erratic areas continues to be mined by conventional shovel and truck methods.

Ore mining employs surface miners (SM), directly loading haul trucks for short-haul transport to an overland conveyor system (OLC) connected to the plant and rail load-out facilities. Some internal waste is also excavated by the SMs and this material will be truck-hauled to designated waste areas.

Mining is initiated in the Three Bears pit of Cloud Break at approximately the five-meter alluvium depth isopach. This is the minimum depth for effective use of the BWEs and the location is also an area of maximum ore thickness. The initial east-west strip is excavated by shovel/truck methods and waste is hauled to ex-pit dump areas. Initial ore is hauled to temporary conveyors and transported to the preparation plant site.

Waste from the succeeding 200-meter wide strip to the north or south is spoiled into the mined-out strip immediately to the north, which is a short haul for shovel/truck operations and is suitable for BWE/MSC mining, (the latter being initiated in the third year of mining—2009 in the current schedule). Once the first in-pit backfill strip is completed, the temporary ore conveyors are replaced by the major east-west overland conveyor system positioned on top of this backfill. As mining progresses to the south, north-south branch conveyors are added to minimize the truck haulage distance for the ore.

Three mining equipment configurations are required for the proposed operation:

1. Alluvium will be removed using compact BWEs to feed material to MSCs. In the current mine plan, 65 percent of the alluvium, or 32 percent of the total waste, is mined by BWE/MSC.
2. A conventional drill-shovel-truck fleet will do the pioneering work for the BWE operations in each panel, and will be used to excavate the hardcap material, and will remove the Nammuldi internal waste. This fleet will also be used to mine small zones not amenable to BWE excavation.
3. Ore will be mined with SMs (modified versions of road planers used in road reconstruction), directly loading haul trucks for transport to an overland conveyor system. The overland conveyor system will be extended, as mining progresses, to eventually bring Christmas Creek ore to the Cloud Break preparation plant and rail load-out facility.

The proposed equipment configurations are all proven technology, but the combination is unique for an iron ore operation, so far as WDC knows. Rio Tinto has initiated a test of the Wirtgen SM2200 Surface Miner in ore at its Yandi mine in the Pilbara in June 2006. BHPB ran a trial on a surface miner at its Yandi operation in 2003.

The BWE's will be supplied by MAN Takraf GmbH, who have done site testing of the alluvium to confirm the application. The cross-pit conveyor-stacker system will be supplied by Rahco International. Both the BWE and conveyor systems have been sized and designed for the specified tonnage.

The conventional shovel-truck fleet will consist of 26-cubic meter hydraulic front shovels loading 220-tonne haul trucks. Drills are included for blasting of hardcap material.

The SMs proposed for ore mining are used in coal, bauxite, gypsum, and limestone applications around the world, and are particularly suited for selectively mining horizontal or flatly-dipping thin seams. The machines can cut to an accuracy of + 0.1 meter and are well-suited to the proposed Fortescue operations for the following reasons:

- The need for drilling and blasting of ore is eliminated
- Consistent product size
- Primary and secondary crushing is eliminated
- Ability to mine very selectively
  - Remove thin waste bedding zones
  - Minimize waste dilution
- Relatively low capital cost

In 2005, Fortescue obtained two Wirtgen surface miners (a 2600SM and a 2200SM) and developed a test pit at Cloud Break to evaluate the application to iron ore. The results of the test program were favorable and confirmed the SMs as the method of choice for ore mining.

Overland conveyors will be used to transport ore from the Cloud Break and Christmas Creek mining areas to the crushing and screening plant to be located at Cloud Break. Branch conveyors will be used within the active mining areas of both mines to limit ore truck haul distance to a maximum distance of about one kilometer.

All arterial (main) mining conveyors will be designed with a capacity of 6,500 tonnes per hour utilizing a conveyor belt of 1,400-mm width and speeds of 5.8 to 6.4 meters per second. The major difference in design among the various conveyors will be the tensile strength of the conveyor belting and the amount of applied power to operate the conveyors. Seven branch conveyors (2500 tph) of 1,000-meter length will require 1,120-kilowatt drives. Eight overland conveyors, which vary in length from 8,000 meters to 36,000 meters, will utilize 6,900 kilowatts for the shortest conveyor and 30,300 kilowatts for the longest conveyor.

The overland and branch conveyors will be built as needed over a period of fifteen years. Initially the conveyor system will be installed near the initial mining areas at Cloud Break and extended to the west as Cloud Break mining progresses in that direction. As ore mining begins at Christmas Creek, the overland conveyor system will be extended to the east. Currently it is planned that the overland conveyor will eventually extend about 25 km to the west to the limits of the Cloud Break mine and 60 km to the east for the Christmas Creek mine.

The Snowden calculations of equipment requirements, mine capital costs, and mine operating costs are detailed and complete. The initial mine production schedule was developed using the resource model and the specified iron ore product sales targets, which yielded period (annual) quantities in dry tonnes. To take into account an estimated five percent moisture content, the annual tonnages were factored by 1.05 and all equipment productivity and operating cost calculations have been done on a wet-tonne basis. The resulting operating costs were divided by 1.05 in order to express unit costs as dollars per dry metric tonne.

WDC has made semi-independent estimates of equipment productivities and has checked the equipment requirements in detail. All differences were within feasibility-level accuracies. The only significant variance was due to the first mining period being treated as a full year by Snowden. The pre-startup period is actually three calendar quarters, and WDC revising the equipment calculations to facilitate this three-quarter (0.75) year base. This adds two 830E haul trucks (@ \$4.5 million each) and three surface miners (@ \$5.9 million each).

The capital cost estimates are a function of the required equipment levels and vendor quotes for the equipment. WDC has found these to be detailed and complete.

The operating cost calculations exceed the detail necessary for a feasibility study and are suitable for budgetary estimates. WDC has checked the components used to prepare the operating cost estimate and found them to be reasonable and complete. WDC did not do independent, detailed cost estimates. The final cost centers are: clear and grub, alluvium mining, hardcap mining, ore mining, transport, and overheads. These are not really mining function cost centers as the alluvium mining includes both BWE and shovel/truck operations, but excludes the MSC and any maintenance. The transport cost center includes both the overland conveyors and the MSC, but no maintenance. All maintenance is included in the overheads cost center. As a consequence, the cost of BWE/MS mining cannot be compared to shovel/truck mining in this format. At the request of WDC, the operating costs were reformatted using cost centers with allocated maintenance (clear and grub, waste by BWE/MS, waste by shovel/truck, waste by SM/truck, ore by SM/truck/OLC, stockpile rehandling auxiliary equipment, mine administration, and hire equipment adjustment).



The Snowden mine production schedule contains peaks in waste mining that have resulted in equipment units being “purchased” on paper, but only used for a small proportion of their economic life. For the mine feasibility study cost estimate, Fortescue and Snowden have elected to hire (lease) the incremental equipment at the expense of a higher operating cost. The mine equipment capital has been reduced by \$177 million and operating costs have been increased by \$403 million, or \$0.07/dmt mined. WDC is of the opinion that the waste mining schedule can be smoothed by advanced stripping and that the equipment peak may be minimized, if not eliminated. In WDC’s opinion, the incremental operating costs used in the study may not be truly incremental; some costs may be double-counted (Snowden is currently reviewing this). Because the increase in operating cost is considerably in excess of the capital saved, WDC would consider this to be a conservative interim measure.

WDC has found no fatal flaws in the basic mining feasibility study, which was developed on a generic mining period basis, but conversion to a calendar-period-basis to meet the ore-to-rail delivery target in the fourth quarter of 2007 would result in some potentially significant problems, if it were not for steps recently taken by Fortescue.

Waste mining is required to start at the beginning of the second quarter of 2007, with a gradual production ramp-up to meet the fourth quarter 2007 ore-to-rail delivery target, to meet the 2008 ore sales target, and to attain full production by the end of 2008. The implications for the second quarter 2007 startup could have been serious were it not for the alliance agreement whereby Roche Mining will be able to supply mobile equipment to conduct pre-production stripping and mine development. Roche Mining will start mobilizing equipment to site with effect from August 2006 to commence site preparation and ore extraction in and around the crushing and screening plant. There will be a scheduled build up from this time onwards. Table 7, prepared by Fortescue, shows the preliminary ramp-up schedule.

**Table 7—Preliminary Ramp Up Schedule**

	2007				2008					2009				
	2/4	3/4	4/4	Total	1/4	2/4	3/4	4/4	Total	1/4	2/4	3/4	4/4	Total
<b>Ore Production Target</b>														
HG ktonnes	0	0	5,000	5,000	5,625	5,625	5,625	5,625	22,500	7,500	7,500	7,500	7,500	30,000
SV tonnes	0	0	2,000	2,000	3,125	3,125	3,125	3,125	12,500	3,750	3,750	3,750	3,750	15,000
<b>Mine Production Schedule</b>														
Ore														
HG ktonnes (wmt)	0	0	5,087	5,087	8,114	8,114	5,302	6,736	25,662	7,137	7,243	7,597	8,984	30,960
SV tonnes (wmt)	6	13	3,778	3,797	6,542	13,093	8,010	5,707	33,352	6,293	4,971	15,104	4,383	30,751
Total	6	13	8,865	8,884	14,656	21,207	13,312	12,443	59,014	13,430	12,214	22,701	13,367	61,711
Waste														
OB ktonnes (wmt)	3,458	4,919	6,379	14,756	4,512	7,868	10,143	10,192	32,715	22,560	34,389	22,000	24,050	102,999
HC ktonnes (wmt)	5,497	5,340	3,539	14,376	7,212	12,422	6,993	10,535	37,162	11,047	11,386	15,268	14,081	51,782
IW ktonnes (wmt)	6,120	7,957	9,294	23,371	19,488	20,132	18,189	17,808	75,617	15,742	13,842	28,000	25,950	83,534
Total	15,075	18,216	19,212	52,503	31,212	40,422	35,325	38,535	145,494	49,349	59,617	65,268	64,081	238,315
W:O ratio	0.00	0.00	2.17	5.91	2.13	1.91	2.65	3.10	2.47	3.67	4.88	2.88	4.79	3.86
Total Material ktonnes	15,081	18,229	28,077	61,387	45,868	61,629	48,637	50,978	204,508	62,779	71,831	87,969	77,448	300,026

Note:

- (1) Total tonnages shown for 2007, 2008 and 2009 are those for Periods 1,2 and 3, respectively of the Snowden mine production schedule.

On June 6, 2006 Fortescue announced that it entered into a long-term mining alliance with Roche Mining (Roche) to be known as the Pilbara Mining Alliance (PMA). Roche is a major Australian provider of contract mining services. Under the agreement, Roche will provide equipment and personnel required to commence mining operations when required in order for Fortescue to be able to begin loading ore into ships in the timeframe December 2007 to February 2008. The equipment to be provided by Roche will enable the PMA to

achieve its scheduled development and production requirements. As the equipment purchased (leased) by Fortescue arrives on site, the Roche equipment will be replaced, but Roche will continue to supply personnel to operate and maintain the equipment. The PMA is to meet in late June to begin negotiating details of the agreement including schedules and budget estimates. Detailed mine planning for the early years of mining will be done by the PMA team. The detailed planning will permit definitive mining cost estimates to be made.

In addition, Fortescue has advised WDC that original equipment manufacturers of drills, excavators and trucks have submitted proposals to supply equipment with acceptable delivery times and attractive leasing packages. In addition equipment supplied can be supplied where necessary with radial ply tires. Roche has supplied to Fortescue a complete list of mobile equipment including some Caterpillar 793 trucks that are coming off a project and are available to assist in meeting the ore production and shipping schedule.

Tires for large trucks could potentially be a critical item impacting the mine operations initiation date. The general consensus is that the current manufacturing capacity for large radial ply tires is oversubscribed by existing customers and there is no opportunity for a new player to crash the queue. Two major tire manufacturers are known to be expanding their capacity, but it does not appear likely that production from their expansions will be available before the date scheduled for initiation of mining by Fortescue. Of the two tire manufacturers supplying price quotations for the mining study, one did not give delivery times and the other specified 2008 or later. The PMA will substantially help to alleviate the tire problem. Roche have confirmed to Fortescue ongoing radial ply tire supply from its own source for all of their equipment used on the project. In addition, according to Fortescue, the Hiflex Australia Group Pty Ltd have completed a joint venture with Pingan Tires of China, who have been manufacturing tires for 19 years. This organization claims to be able to produce large cross ply tires of the sizes required by Fortescue. Hiflex advise that initial stock will be arriving in Perth in the fourth quarter of 2006 and will be warehoused for Fortescue's needs. Tires from Pingan's first production run of the larger size, cross ply tires are currently undergoing trials at three locations in Australia, according to Fortescue. WDC is unable to comment on the quality of the tires since no data are available from the trials. The actions taken by Fortescue with regard to the PMA and tires should be very helpful in meeting the February 2008 first ore shipment schedule. It should be pointed out that cross ply tires are available in all sizes. Radial ply tires for trucks of over 180 tonne capacity and large wheel loaders are experiencing supply constraints. All of Fortescue's ore transporting fleet are trucks with a capacity of less than 100 tonne, and the short haul requirements of the large trucks for waste mining makes cross ply tires an option.

## 6. Ore Preparation

Initially the ore preparation plant will consist of a crushing, screening and desanding operation at the mine area with additional screening and blending at the port. Later, a beneficiation plant (gravity separation plant) to upgrade low-grade ore will be built in time to be in operation in 2015. The timing of the startup of the beneficiation plant is based on Snowden's March 2006 mine production schedule.

All of the crushing, screening and material handling equipment in the planned mine site ore handling system has a long history of use in the Pilbara iron ore district. The crushing plant flowsheet was developed by engineers who are very familiar with current operating practices in the Pilbara district. Some minor changes in the flow sheet have been incorporated to reduce material handling difficulties experienced at other iron ore production facilities.

During the first two years of mining, two fines products of different iron grades will be produced in the minus-6.3 mm size. No lump product will be produced. The two fines products are designated "high-grade fines" (plus 60 percent iron) and "high-value fines" (plus 58 percent iron). Beginning in year three, the mine will begin producing and shipping a "high-grade lump" product in addition to the two fines products.

In WDC's opinion, the crushing, screening, and materials handling plant and equipment should be capable of the throughput rates necessary to achieve Fortescue's planned fines and lump products production rates, in aggregate 45 million tpy.

The capital cost estimate for the crushing, screening, and materials handling system is based on over 70 drawings for the ore preparation system layout, and a similar number for the port facilities. Detailed specifications were written for major subsystems, capital cost estimates and vendor quotes were obtained from manufacturers, and detailed construction package estimates were made. In WDC's opinion, after reviewing the detail that went into the capital cost estimate, the estimate procedures and detail follow general engineering practices and realistic assumptions have been used.

Only preliminary engineering and cost estimation has been done for the gravity beneficiation plant currently planned to start operating in 2015. Definitive engineering and estimating will be done in the future when required.

## 7. Railroad

The review of the rail facilities included the concept, engineering, operating plan, costs and schedule to construct and operate the railroad. To prepare the review, the engineering documents, operating plans and projected costs and schedule for the proposed railroad were examined for completeness and apparent quality. Based on WDC's review and analysis, the proposed railroad facilities meet the industry-accepted design standards for heavy haul railways, and will likely be capable of meeting industry-accepted performance levels and of delivering 45 Mtpa of iron ore from the mine to the port.

The railway to serve the Fortescue ore deposits consists of a 260-km single-track mainline connecting Fortescue's mine site at Cloud Break to port facilities at Port Hedland, Western Australia. At Cloud Break trains will be continuously loaded at a speed of about 1.5 kmph in a tunnel utilizing a Schenck batch weighing loader with chutes. This train loading facility is proven technology used in other recent Pilbara ore loading sites. The mine is served by a simple track layout consisting of a crossing loop, a refuge spur and a tail track. This layout will allow for a train to be loaded without interruption from the arrival of an empty train.

Train operations will initially employ four train sets of 200 ore wagons per train sets, each hauled by two GE Dash-9 4400-hp diesel units. The ore wagons will be evenly loaded across the wagons to a maximum limit of 138.5 tonnes, which will give an axle weight of 40-tonnes per axle. The Schenck loader has been designed to ensure that the variance in loading is controlled to eliminate the unwanted peak loading which is a limiting factor with the old types of loading technology seen extensively in the Pilbara. This system is designed to ensure maximum safe loading.

The single-track mainline is provided with three crossing loops which have been modelled and shown to be adequate for the planned production of 45 million tpa from the mine to the port.

At the port the railway ends in a balloon loop with the track passing through a Metso designed twin-cell rotary train unloader. The design of this unloader is similar in configuration to unloaders recently installed in other Pilbara operations. This method of discharging ore from rail cars has been the preferred process in the Pilbara for over 40 years. As a result, Fortescue has selected this style of unloader with additional technology to improve efficiencies.

A marshalling yard and railway workshop facility have been designed and are to be located South-East of the community of South Hedland. This location offers the best compromise in terms of operation, environmental and community criteria. The marshalling yard allows sufficient space for further expansion of the marshalling yard and workshop facilities and ensures that the noise created by the day-to-day operations of the railroad should not impact on the nearby communities.

A detailed railway construction schedule was prepared in September 2005 for the DFS using Primavera P3 software. Consistent with the DFS, the schedule was based upon a September 2005 start date. During the period from September 2005 to June 2006 the schedule has been further updated and enhanced to reflect the most up-to-date timings.

Since September 2005, rail investigation activities have been awaiting government licenses and indigenous heritage surveys. For the most part, environmental approvals for the rail corridor were received in October 2005. Ministerial agreement to the rail corridor is expected in July 2006.

Rail investigation licenses were issued in early April 2006 and geotechnical work, test pit and construction of access tracks along the railway centreline to water and potential borrow pits commenced as of 19 April 2006.

Contracts to commence the rail works have been awarded with a commencement date of August 2006. The earthworks and culvert site preparation and construction have been awarded to BGC Contracting. A delay in the procurement of rail and bridge girders, or award of the track laying contract could become critical to the schedule. Some slippage in the deliveries of the locomotives and ore wagons can be tolerated within the schedule as the mine will not come into a full 45-Mtpa production rate immediately.

The railway is designed to meet a 45-million tpa production rate allowing for reasonable operating delays. Extensive modelling and operational expertise in heavy haul railways in the Pilbara have shown this production rate represents 93 percent of capacity using four train sets. This production rate is in line with current operators in the Pilbara using a significantly older fleet and infrastructure system. The railway capacity can be further increased simply by adding either additional ore wagons to each train set (up to 240 wagons per train set) or alternatively adding another full train set. Modelling of the locomotive capability by GM, GE and an independent engineering house (TMG International) have shown definitively that a train set of 240 wagons can be effectively hauled by two locomotives. Hamersley Iron currently operates 230-wagon trains with two similar GE Dash-9 locomotives over more adverse grades. The extension of Fortescue's trains from 200-wagons to 240-wagons would increase the capacity from over 45 Mtpa to in excess of 54 Mtpa.

## 8. Port Facility

The review of the port facilities included the concept, engineering, operating plan, costs and schedule to construct and operate the iron ore export terminal. To prepare the review, the engineering documents, operating plans and projected costs and schedule for the proposed port were examined for completeness and apparent quality. Based on WDC's review and analysis, the proposed port facilities meet industry-accepted design standards and will likely be capable of meeting industry-accepted performance levels and of delivering 45 Mtpa of iron ore into ships.

A computer simulation of the proposed port operations carried out by Fortescue's consultants and reviewed by WDC showed that the proposed port facilities would be capable of delivery of 45 Mtpa at an industry-accepted level of performance. The ship-loading berth is forecasted to be occupied 82 percent of the time. Terminal capacity information is based on a weighted vessel demurrage calculation. The demurrage cost was estimated to be A\$10 million per annum based on a daily cape size vessel cost of A\$90,000. The present daily rate is less than half of this, so the annual demurrage cost is expected to be lower than the A\$10 million included in the estimate.

The proposed maritime structures follow conventional designs similar to other iron ore exporting facilities on the Western Australian coast and elsewhere. Two berths are planned. Berth 1 is an active berth which will include the shiploader support structure. It will carry the traveling shiploader and related conveyors and enable vessels to be loaded. Initially, Berth 2 will be used as a lay-by berth to provide a "parking" space for fully loaded vessels that may be constrained by tidal conditions which will otherwise prevent the loaded vessel from departing. The lay-by berth (or Berth 2) will also accommodate empty vessels awaiting loading and by this process will further reduce the Total Time-in-Port (TTIP) measure and will considerably increase the throughput of the shiploader and reduce the cost of demurrage. Berth 2 has been designed to accommodate a traveling shiploader should the annual iron ore export volumes make it necessary.

The proposed train unloader is a twin-cell rotary tippler type, designed for simultaneous unloading of two rail wagons. The train unloader will be capable of clamping and tipping two wagons at a time to unload up to a 240-wagon train with a gross capacity of 38,400 tonnes in approximately 3.7 hours. The selection of the twin-cell rotary tippler has been completed and a contract let for the design, construction and installation of this equipment. The supplier has extensive experience in the design, manufacture and installation of this type of tippler globally as well as recently supplying tipplers for similar service in the iron ore industry in the Pilbara.

Two unmanned rail-mounted traveling slewing stackers (initially one) will operate simultaneously and can each create two lines of iron ore stockpiles on either side of the stacker runway. A rail-mounted traveling slewing and luffing bucketwheel reclaimer will be used to reclaim the iron ore from the stockpiles laid down by the stackers. The proposed stockyard equipment, design and operating plan are conventional. This type of equipment is similar in design to the equipment in use by the primary operators of iron ore bulk handling in the Pilbara region as well as elsewhere and have been in use for many years with good success.

The proposed shiploader is a standard type with traveling, slewing and luffing boom of a proven design. The shiploader will be manned to ensure safe loading of all vessels and has been designed to produce a nominal loading capacity of 12,500 tph. It will be dimensionally sized to load all hatches of ships from 50,000 DWT to 270,000 DWT.

The capital cost estimate is based on an engineering, procurement and construction management (EPCM) execution plan. Meetings and discussions were held with WorleyParsons engineering and Fortescue representatives to review the scope in order to assess constructability, site productivity and labor rates.

The basic estimate appears to be well prepared and thought out. A number of risk factors and design growth allocations were applied to the port area base cost estimate to account for potential delays and contractual issues.

The risk factors and design growth allocations appear reasonable for the current project definition considering that the basis of estimate for several of the major construction packages is based on actual tenders.

Due to the fast-track nature of this project, the critical path follows several avenues. The bidding process for vendor packages must be expeditious to meet the schedule. This forms the basis of the critical path alongside construction of the port marine works and dredging. The dredging contract which was on the critical path because piling works for the wharf cannot commence until the dredge is out of that area. The dredging contract has now been awarded to Jan de Nul in March 2006. The dredge (Leonardo Da Vinci) is currently being mobilized, and is scheduled to begin dredging in July 2006.

In WDC's opinion, the proposed port construction schedule is aggressive but could be met with an efficient and experienced management team.

### **9. Other Infrastructure and Indirect Costs**

The cost center of “Other Infrastructure” is developed to collect those items that are outside of the main ore handling or process areas, and which are termed as “Outside Battery Limits” in the original infrastructure DFS. This area includes items such as electrical power, water supply and treatment, permanent service buildings, airport, and construction camps. In WDC’s opinion, the capital and operating costs estimated for these items have been done following normal engineering practices and using realistic assumptions. The estimated capital expenditures, including provisions for these items is A\$423 million.



## 10. Project Schedule

### 10.1. Mine

The Snowden/Fortescue mining study was completed in April 2006. The subsequent necessary detailed mine engineering, including a detailed monthly ramp-up mining schedule, detailed mine production plans and schedules, and mining cost estimates for the preproduction period and early years of ore production, and construction plans and schedules for maintenance facilities, power supply, and ancillary facilities are not expected to be completed until perhaps the end of September 2006. It is WDC's understanding that a meeting of the Pilbara Mining Alliance (PMA) was held on June 29, 2006 to begin discussions of such activities. In WDC's opinion, detailed production plans and cost estimates should be prepared by month for the period through the first quarter of 2008, and by quarter through calendar 2009 in order to provide the PMA adequate information for equipment planning, budgeting and assurance of reaching production goals.

The project construction schedule calls for the first ore to be loaded into a ship in January 2008 and for completion of wet commissioning and performance testing on March 13, 2008 (early finish). Fortescue also has a more aggressive target of first ship loading in December 2007, which in WDC's opinion was unlikely to be achieved in the Snowden scenario in which Fortescue owned and operated all equipment from the outset. This was due to equipment delivery times issues. Fortescue has taken two types of actions which will mitigate the equipment delivery date issue. On June 6, 2006 Fortescue announced that it has entered into a long-term mining alliance with Roche Mining (Roche) to be known as the Pilbara Mining Alliance (PMA). Roche is a major Australian provider of contract mining services. Under the agreement, Roche will provide equipment and personnel required to commence mining operations when required in order for Fortescue to be able to begin loading ore into ships in the timeframe December 2007 to February 2008. The equipment to be provided by Roche will enable Fortescue to mitigate the problem of long lead times on certain major mining equipment items. As the equipment purchased by Fortescue arrives on site, the Roche equipment will be replaced by it, but Roche will continue to supply personnel to operate and maintain the equipment. The PMA will result in higher mine operating costs per tonne of material moved than would be the case if Fortescue owned and operated all the equipment, since Roche's unit price (approx. \$1.40 to \$1.45/tonne) and fee will include charges for ownership costs and profit. The PMA is to meet in late June to begin negotiating details of the agreement including prices, as currently FMG have a lease charge of only \$0.71/unit. Detailed mine planning for the early years of mining will be done by the PMA team. The detailed planning will permit definitive mining cost estimates to be made.

In addition, Fortescue has advised WDC that they are looking at Terex equipment with a shorter delivery time and some used Caterpillar 793 trucks that are coming off a project and might be available, as well as other equipment options in order to obtain equipment when needed to meet the ore production and shipping schedule.

Tires are another critical item impacting the mine operations initiation date. The general consensus is that the current manufacturing capacity for certain large tires is oversubscribed by existing customers and there is no opportunity for a new player to jump the queue. Two major tire manufacturers are known to be expanding their capacity, but it does not appear likely that production from their expansions will be available before the date scheduled for initiation of mining by Fortescue. Of the two tire manufacturers supplying price quotations for the mining study, one did not give delivery times and the other specified 2008 or later. The PMA will substantially help to alleviate the tire problem. Roche have confirmed to Fortescue ongoing tire supply from their own source for all equipment during the use of their fleet. In addition, according to Fortescue, the Hiflex Australia Group Pty Ltd have completed a joint venture with Pingan Tires of China, who have been manufacturing tires for 19 years, for production of tires of the sizes required by Fortescue. According to Fortescue, initial stock will be arriving in Perth in the fourth quarter of 2006 and will be warehoused for Fortescue's needs. Tires from Pingan's first production run of the larger size, cross ply tires are currently undergoing trials at three locations in Australia, according to Fortescue. WDC is unable to comment on the quality of the tires since no data are available from the trials. The actions taken by Fortescue with regard to the PMA and tires should be very helpful in meeting the January 2008 first ore shipment schedule.

Initiation of mining on April 1, 2007 requires that reasonable worker accommodation be available prior to that date. Maintenance facilities will also be required by the same time.

### ***10.2. Project Infrastructure***

In March 2006 WorleyParsons completed the “Control Schedule” for the project. The present control estimate was based upon this schedule.

The schedule takes due account of all work undertaken to that date and shows a “first ore on ship” date of January 23, 2008 and completion of all commissioning and performance testing by March 18, 2008.

The schedule has a 22-month construction period allowed and shows all key contracts and procurement activities needing to be activated in the first two months of the schedule. The schedule takes a “fast track” approach with the critical path along several avenues. To maintain schedule it is essential the bidding process of vendor and construction packages be expeditious. Earlier sections of the report discussed individual project area schedules and the reader is referred to those sections for added details.

To date key contracts required to be awarded have all been fully negotiated or signed and completion/delivery dates within those contracts either match or better the schedule requirements.

Completion of the railroad to allow shipment of ore to the port and commencement of stockpiling is set at November 30, 2007. To achieve this, earthworks must commence in early September 2006 and approvals must therefore be in place. If the receipt of the permit needed to start railway earthworks is delayed beyond September 2006, it is reasonable to expect that the project schedule and capital cost will be adversely affected. It is currently expected that the Special Railway License needed for the railroad will not be issued until the end of September 2006.

In WDC’s opinion the overall scheduled completion date is achievable but is definitely a “fast track” project and will require an aggressive approach and careful monitoring by the management team to avoid slippage.

Table 8 shows important issues relevant to meeting the base schedule as outlined in the DFS and updated in March 2006 in connection with the control schedule. Given the complexity of the project, and the potential for other projects to conflict with the demands of this project, the items listed in Table 8 are important and not simply “boiler plate” items normally added by engineering firms.

**Table 8—Schedule Assumptions and Risks per WorleyParsons DFS Report for Base Schedule**

**1.0 General Project Wide**

- 1.1 Project sanction is assumed to be March 1, 2006 and most of the statutory approvals will be required before this date
- 1.2 Market conditions and other major projects are assumed not to limit availability of resources, such as personnel, equipment and materials
- 1.3 On site working hours are based on 65 hours per week

**2.0 Mine and Port Ore Handling**

- 2.1 Port ore handling construction works is dependent upon the dredging/reclamation and bulk earthworks activities

**3.0 Port Facilities**

- 3.1 The award of the port bulked earthworks contract, port dredging contract and marine contract are required to be made early within the pre-sanction period
- 3.2 The schedule assumes a dredging program of 11 months with the first key milestone being North end of the stockyard after 6 months and the next key milestone is the South end of stockyard after 9 months
- 3.3 The schedule assumes a 12 month marine program with berth 1 available in 10 months
- 3.4 The entire quantity of bulk earth required for constructing the causeway, reclamation bund and stockyard bunds is to be sourced from borrow pits within the site boundary
- 3.5 No allowance has been made for any delays resulting from environmental issues
- 3.6 Generally, having three large contracts (dredging, marine structures and earthworks) running concurrently will likely create significant interfaces, which will require careful management. Materials handling works and foundations for the conveyors (and similar items) will need to take place in parallel

**4.0 Rail Facilities**

- 4.1 Land tenure and approvals are required to be in place for each site activities to commence at the end of month 2
- 4.2 All heritage and environmental restrictions to the alignment are required to be resolved
- 4.3 No allowance has been made for delays due to encountering asbestos during excavation
- 4.4 Resolution of crossings with BHPBIO and other parties is required to be achieved such that the schedule is not affected
- 4.5 No allowance has been made for washouts to embankments or bridges during construction
- 4.6 No allowance for sourcing of materials outside the TPI corridor has been made
- 4.7 The schedule assumes all major contracts including free issue supply contracts are negotiated during the pre-sanction phase

**5.0 OBL Infrastructure**

- 5.1 The schedule assumed award of the port construction camp contract with 2 months of month 1 and the first beds (complete with water and power) are available 2 months after project sanction

**11. Capital Expenditure Estimate**

**11.1. Mine**

Mine capital expenditure estimates by Snowden and Fortescue are based on the equipment fleet requirements as defined by the estimated productivities and the annual tonnage requirements. Unit prices are based on fourth quarter 2005 / first quarter 2006 budget quotations from equipment suppliers.

Both the Snowden capital cost estimate and the operating cost estimates are extremely detailed and are more akin to an operating budget than a feasibility study estimate. WDC is confident that no significant items have been omitted.

Capital expenditures have been calculated in terms of the following categories:

<u>Category</u>	<u>CB</u>	<u>CC</u>	<u>Total</u>
	\$ (millions)		
Infrastructure			
Buildings .....	15.4	15.4	30.8
Overland Conveyor .....	142.7	328.4	471.1
Infrastructure total .....	158.1	343.8	501.9
Production equipment .....	538.0	571.8	1,109.8
Ancillary equipment .....	42.8	44.0	86.8
Sustaining capital .....	51.5	163.8	215.3
Capital cost subtotal .....	790.4	1,123.4	1,913.8
Hire equipment adjustment .....	(89.3)	(88.1)	(177.4)
Capital cost total .....	701.1	1,035.3	1,736.4

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Table 9—Mine Capital Costs

	Mining Period												Total								
	1	2	3	4	5	6	7	8	9	10	11	12		13	14	15	16	17	18	19	20
Cloud Break (\$s,1000)																					
Infrastructure	15,391	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	15,391
Buildings	0	44,535	0	0	0	0	37,943	0	11,137	0	9,014	0	26,663	0	13,403	0	0	0	0	0	142,695
Overland conveyor	15,391	44,535	0	0	0	0	37,943	0	11,137	0	9,014	0	26,663	0	13,403	0	0	0	0	0	158,086
Infrastructure total	90,574	174,645	160,402	0	35,868	61,914	0	8,136	3,108	0	0	0	0	0	0	0	3,391	0	0	0	538,038
Production equipment	11,025	3,852	12,043	0	1,742	351	576	751	493	8,331	971	259	302	181	1,147	778	0	0	0	0	42,802
Ancillary equipment	0	0	0	0	0	1,727	1,760	0	1,727	1,760	0	950	12,495	2,064	0	30,744	0	1,726	0	0	51,466
Sustaining	116,990	223,032	172,445	0	35,868	63,656	40,021	2,336	11,888	9,579	32,948	3,035	26,922	31,046	13,584	1,147	5,895	0	0	0	790,392
Total	(4,266)	(44,785)	(12,093)	0	0	(28,138)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-89,282
Hire equipment adjustment	112,724	178,247	160,352	0	35,868	35,318	40,021	2,336	11,888	9,579	32,948	3,035	26,922	31,046	13,584	1,147	5,895	0	0	0	701,110
Adjusted total																					
Christmas Creek (\$s,1000)																					
Infrastructure	0	0	0	0	15,391	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	15,391
Buildings	0	0	0	0	242,466	0	6,722	26,128	32,707	0	19,786	0	0	0	0	0	570	0	0	0	328,379
Overland conveyor	0	0	0	0	257,857	0	6,722	26,128	32,707	0	19,786	0	0	0	0	0	570	0	0	0	343,770
Infrastructure total	0	0	0	0	108,334	71,707	105,326	78,011	63,267	59,796	0	3,487	0	0	0	0	81,837	0	0	0	571,765
Production equipment	0	0	0	0	11,236	1,813	12,249	1,207	0	1,373	0	833	1,154	0	8,764	2,013	2,157	650	549	0	43,998
Ancillary equipment	0	0	0	0	0	0	0	0	0	0	0	0	5,928	3,391	5,928	20,270	47,507	61,800	19,031	0	163,855
Sustaining	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	0	0	0	0	377,427	73,520	124,297	105,346	95,974	61,169	0	24,106	7,082	3,391	14,692	22,283	132,071	62,450	19,580	0	1,123,388
Hire equipment adjustment	0	0	0	0	0	(26,512)	(32,430)	(25,163)	0	0	0	0	0	0	0	0	(4,002)	0	0	0	(88,107)
Adjusted total	0	0	0	0	377,427	47,008	91,867	80,183	95,974	61,169	0	24,106	7,082	3,391	14,692	22,283	128,069	62,450	19,580	0	1,035,281
Project Total																					
Infrastructure	15,391	0	0	0	15,391	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	30,782
Buildings	0	44,535	0	0	242,466	0	44,665	26,128	43,844	0	9,014	19,786	26,663	0	13,403	0	570	0	0	0	471,074
Overland conveyor	15,391	44,535	0	0	257,857	0	44,665	26,128	43,844	0	9,014	19,786	26,663	0	13,403	0	570	0	0	0	501,856
Infrastructure total	90,574	174,645	160,402	0	144,202	133,621	105,326	78,011	63,267	67,932	3,108	3,487	0	0	0	0	85,228	0	0	0	1,109,803
Production equipment	11,025	3,852	12,043	0	11,236	3,555	12,600	1,783	751	1,866	8,331	1,804	1,413	302	8,945	3,160	2,935	650	549	0	86,800
Ancillary equipment	0	0	0	0	0	0	1,727	1,760	0	950	12,495	2,064	5,928	34,135	5,928	20,270	49,233	61,800	19,031	0	215,321
Sustaining	116,990	223,032	172,445	0	413,295	137,176	164,318	107,682	107,862	70,748	32,948	27,141	34,004	34,437	28,276	23,430	137,966	62,450	19,580	0	1,913,780
Total	(4,266)	(44,785)	(12,093)	0	0	(54,650)	(32,430)	(25,163)	0	0	0	0	0	0	0	0	(4,002)	0	0	0	(177,389)
Hire equipment adjustment	112,724	178,247	160,352	0	413,295	82,526	131,888	82,519	107,862	70,748	32,948	27,141	34,004	34,437	28,276	23,430	133,964	62,450	19,580	0	1,736,391
Adjusted total																					

**11.1.1. Mine Infrastructure**

Infrastructure costs include both building infrastructure and the overland conveyor system. The building infrastructure cost is identical for Cloud Break and Christmas Creek and the following costs (\$'000s) are applicable to each site:

The maintenance workshop was described as containing three deep service bays (12x18m) plus one light vehicle service bay (also 12x18m). WDC calculated the peak number of mobile equipment units at Cloud Break as 97. Assuming an availability of 85 percent, there would be an average of 16 units down at any one time and WDC felt that there were not sufficient shop bays. Snowden referred to the workshop plan drawings, which had six of the large bays plus four smaller bays and a tire bay. WDC concurs that this facility should suffice.

The overland conveyor capital costs consist of:

<u>Item</u>	<u>Unit</u>	<u>Qty</u>	<u>\$'000s</u>
Road construction .....	km	79.5	7,553
Electrical reticulation .....	LS	1	31,425
Transfer stations .....	ea	4	1,244
Load impact stations .....	ea	46	2,185
Temporary conveyor .....	m	10,000	60,181
CV01 .....	m	1,000	4,959
CV02 .....	m	8,000	26,264
CV03 .....	m	36,000	137,952
CV04 .....	m	12,500	49,438
CV05 stage 1 (Y7) .....	m	8,500	33,668
CV05 stage 2 (Y9) .....	m	2,500	10,530
CV05 stage 3 (Y11) .....	m	2,000	5,891
CV05 stage 4 (Y13) .....	m	6,000	25,911
CV05 stage 3 (Y15) .....	m	3,000	11,848
Total cost .....			<u>409,045</u>

**11.1.2. Production Equipment**

The unit costs for the equipment below include transport to site and commissioning. Snowden also advises that the unit costs also include a small contingency for miscellaneous items not identified. The tabulation below is a reproduction of Table 12.3 in the Snowden report. WDC did not find any capital specifically allocated to bringing power from the overland conveyor corridor to the BWE/MSK working areas. Fortescue advised that there is a cost for this included in the unit price of the BWE/MSK units. It should be noted that as of June 2006, Fortescue intends to acquire different models than those shown in the list below in certain cases.

Item	Unit Cost \$x1000	Cloud Break		Christmas Creek	
		New	Rplc	New	Rplc
Cubex QXR 920 .....	1,392	1	0	1	0
Infinity SKF .....	1,726	4	3	3	4
BWE .....	29,052	2	0	2	0
PC8000 .....	12,900	6	0	6	0
PC5500 .....	7,681	3	0	1	0
WA1200HL .....	5,134	3	0	4	0
WA900 .....	2,320	4	0	5	1
830E .....	4,461	10	0	8	6
777F .....	1,600	15	1	20	8
Surface miner .....	5,694	9	1	21	6
D575A .....	3,450	1	0	1	0
MSC .....	28,865	2	1	2	2
Scraper .....	2,064	1	1	1	0
D10 .....	1,800	3	3	2	4
854G .....	2,490	3	0	1	3
PC1250 .....	1,450	1	0	1	1
GD825A-2 .....	985	3	1	1	2
Water cart .....	2,054	3	0	1	1
Total cost (\$millions) .....		<u>\$398.1</u>	<u>\$49.8</u>	<u>\$443.0</u>	<u>\$160.8</u>

**11.1.3. Ancillary Equipment**

Ancillary equipment is classified as equipment required to support the primary mining fleet through servicing of the primary equipment, maintaining the working areas, and management/supervision of the operation. The table below is a partial reproduction of Table 12.4 in the Snowden report. The original table has two extra columns with the unit replacement lives but, unlike the table above, does not show any replacement capital.

Item	Unit Cost (\$x1000)	Units Required		
		CB	CC	Total
Crane	419	2	2	4
Compactor	200	1	1	2
Lowboy & float	3,150	2	2	4
Utility lift truck	325	2	2	4
Blasting truck	106	3	3	6
Tyre handler	700	4	6	10
Fuel/lube truck	493	4	6	10
Mechanic field truck	95	3	2	5
IT loader	275	4	3	7
Trayback landcruiser	42	20	17	37
Dualcab landcruiser	48	20	23	43
Troop carrier	50	14	16	30
Bus	87	13	15	28
Rockbreaker	475	3	2	5
Dewatering pump system	150	11	8	19
Aquaterra pit dewatering	11,293	1	1	2
Lighting plant	60	46	47	93
Radio base and repeaters	30	2	4	6
Mobile radios	2	290	320	610
GPS surveying equipment	203	4	4	8
Truck dispatch system	2,109	2	2	4
Mine planning software	360	4	3	7
Mine planning hardware	249	2	2	4
Total cost (\$millions)		\$42.8	\$44.0	\$86.8

**11.1.4. Sustaining Capital**

The Snowden report says sustaining capital was calculated using the replacement interval for capital equipment and describes the replacement lives for the various pieces of equipment, but no dollars are shown under this heading. WDC has put the replacement dollars from the primary equipment under this heading.

**11.1.5. Capital Adjustments for Hire Equipment**

As previously noted, short term peaks in the annual total material mining rate in Periods 6 and 7 at Cloud Break and in Periods 8, 9, and 10 at Christmas Creek would require the purchase of equipment that would be used for only a portion of its economic life. At this time, Fortescue and Snowden have elected to reduce capital by hiring (leasing) the incremental equipment. The resulting annual hire equipment adjustment to the mine capital costs is shown as a line item in Table 9.



**11.2. Project Infrastructure**

The infrastructure capital expenditure estimate as of March 1, 2006 is summarized in Table 10.

**Table 10—Total Capital Cost Estimate Summary Without Mining Equipment, Mine Overland Conveyor System or Mine Shops**

<u>Area</u>	<u>Description</u>	<u>Base Cost Estimate</u> (FFC \$ rev 9)	<u>Provision for Design Growth</u>	<u>Provision for Risk</u>	<u>Total Cost</u>
Port	Major Contracts .....	\$ 545,327,328	\$29,019,716	\$ 49,663,921	\$ 624,010,965
	Equipment Purchase Orders .....	\$ 41,746,683	\$ 834,934	\$ 920,515	\$ 43,502,132
	Subtotal .....	\$ 587,074,011	\$29,854,650	\$ 50,584,436	\$ 667,513,097
Rail	Rail Infrastructure .....	\$ 344,507,336	\$ 8,178,958	\$ 49,018,216	\$ 401,704,509
	Rail Requisitions .....	\$ 256,051,992	\$ 5,121,040	\$ 10,242,079	\$ 271,415,111
	Subtotal .....	\$ 600,559,328	\$13,299,998	\$ 59,260,295	\$ 673,119,620
Mine Ore Handling	Major Contracts .....	\$ 61,130,795	\$ 9,401,867	\$ 13,638,886	\$ 84,171,548
	Equipment Purchase Orders .....	\$ 12,294,836	\$ 245,897	\$ 344,939	\$ 12,885,672
	Subtotal .....	\$ 73,425,631	\$ 9,647,764	\$ 13,983,825	\$ 97,057,220
Mine Crush/Screen/Desliming Plant	Major Contracts .....	\$ 240,279,142	\$10,939,707	\$ 23,440,016	\$ 274,658,865
	Equipment Purchase Orders .....	\$ 47,780,484	\$ 855,510	\$ 1,452,688	\$ 50,088,682
	Subtotal .....	\$ 288,059,626	\$11,795,217	\$ 24,892,704	\$ 324,747,547
Infrastructure, Indirects & EPCM	Infrastructure, OBL .....	\$ 90,244,753	\$ 5,922,369	\$ 8,146,456	\$ 104,313,579
	EPCM, Temp. Buildings, Indirects ..	\$ 266,905,577	\$ 0	\$ 41,449,210	\$ 308,354,787
	Contract Forecasts .....	\$ 9,731,002	\$ 194,622	\$ 258,700	\$ 10,184,324
	Subtotal .....	\$ 366,881,332	\$ 6,116,991	\$ 49,854,366	\$ 422,852,690
Owner's costs .....					\$ 61,436,643
Total .....		\$1,915,999,928	\$70,714,620	\$198,575,626	\$2,246,726,817

**Division of Total Capital**

Total without Mine Crush/Screen/Desliming Plant (Q Rev) .....	\$1,627,940,302	\$58,919,403	\$173,682,922	\$1,921,979,270
Total Mine Crush/Screen/Desliming Plant .....	\$ 288,059,626	\$11,795,217	\$ 24,892,704	\$ 324,747,547
Combined Total .....	\$1,915,999,928	\$70,714,620	\$198,575,626	\$2,246,726,817

The capital costs detailed in Table 10 are taken from the project control budget as it stood at March 1, 2006. Certain criteria used in preparing the estimate are listed in Table 11. Based on the WDC review, the base cost estimates appear to have been prepared according to standard engineering principles and are complete when considered in conjunction with the list of exclusions as summarized in Table 11. The estimate includes port, rail, mine ore handling, and the mine crushing, screening, and desliming plant, infrastructure, indirect and EPCM costs, owner's costs and provisions for design growth and risk. The total estimate is A\$2.25 billion. The estimate does not include working capital, interest during construction, or sunk costs.

**Table 11—Major Criteria for Project Infrastructure Capital Cost Estimate**

- 1.0 Basis of estimate and key qualifications used by WorleyParsons**
  - 1.1 Estimate base date of March 1, 2006
  - 1.2 Labor rates based on a Fly In-Out work cycle of 5 weeks on and 1 week off
  - 1.3 Work week for EPCM of 45 hours/week in home office and 65 hrs/wk in field
  - 1.4 No formal traffic and logistics study for construction activities has been completed
  - 1.5 Assumes environmental approvals in place and no delays caused by project financing
  - 1.6 No geotechnical investigations were completed for the rail alignment and associated earthworks
  - 1.7 Owner's costs supplied by FMG
- 2.0 Assumptions for base cost estimate**
  - 2.1 Australian Work Place Agreements are in place
  - 2.2 Statutory Permits are in place prior to construction
  - 2.3 Land Acquisition and Right-of-Way have been established for construction
  - 2.4 Site security will be provided at owners expense
- 3.0 Exclusions to the capital cost**
  - 3.1 Foreign exchange rate variations
  - 3.2 GST or VAT on imported goods
  - 3.3 No allowance for operating or capital spares, however insurance and commissioning spares are included. Spares are those items that have long lead times for delivery and are crucial for the continued operation of the facility. Not included are routine consumables or maintenance spares
  - 3.4 No allowance has been made for delay costs associated with obtaining statutory approvals such as for building or development approval, however allowance has been made for delays after permits are received and the project has started construction
  - 3.5 Sunk costs are not included
  - 3.6 Costs for any schedule acceleration are not included
  - 3.7 Nil allowance for escalation has been included
  - 3.8 No foreign currency hedging costs are included

The infrastructure capital cost of \$2.25 billion includes a contingency of \$198 million in addition to a design growth allowance of \$70 million. In WDC's opinion, the contingency was reasonable and appropriate as of March 1, 2006, taking into account the level of engineering completed to that date. The \$198 million contingency is a risk provision designed to cover additional project costs including unforeseen and unexpected contract variations, schedule delays (such as typical adverse weather events in the region) or late equipment and construction material deliveries. In WDC's opinion it is reasonable to expect that unforeseen events (such as those this provision is designed to cover) will occur during construction and should be provided for. In WDC's opinion this contingency is appropriate to cover these events, however it is not adequate to cover any extreme unforeseen events that could result in longer-term project delays.

Production of lump ore is to begin in the third year of ore production. An additional capital expenditure of A\$216,213,924, including contingency, will have to be made prior to the start of lump ore production for the lump product circuit. See Table 12. This capital is not included in the initial capital estimate of A\$2.25 billion.

The capital expenditure required for the mine area electric power supply is not included in the estimate of \$2.25 billion because Fortescue plans to contract out the installation and operation of the capital facilities, whether overhead transmission line or generating plant. Capital recovery by the power provider is included in the power cost.

**Table 12—Capital Expenditure for Addition of Lump Product Circuit in Year 3**

Minesite—Screening .....	\$ 21,402,990
Minesite—Crushing .....	\$ 11,263,878
Minesite—Stockpiling .....	\$ 27,558,719
Port—Stockpiling .....	\$ 68,935,182
Port—Re-screening .....	\$ 69,423,155
Contingency .....	\$ 17,630,000
	<u>\$216,213,924</u>

## 12. Cash Production Costs

### 12.1. Mining

Operating cost calculations by Snowden and Fortescue are essentially based on the equipment hours required to mine the scheduled material and an hourly operating cost for the respective equipment units. These equipment hourly operating costs consist of:

- Operating labor
- Maintenance labor
- Repair parts
- Consumables
  - Diesel fuel
  - Power
  - Tires
  - Lubricants
  - Wear items

Hourly costs for repair parts were taken from manufacturers' recommendations.

Diesel fuel cost was based on manufacturers' recommendations for consumption and a price of \$0.65 per liter. According to Fortescue, this diesel price is based on an oil price of US \$60 per barrel.

Power cost was based on manufacturers' consumption recommendations and a price of \$0.14 per kWh.

Tire costs were based on manufacturers' quotes and appropriate tire lives.

Costs for lubricants were based on manufacturers' recommendations for consumption and a recent quote by BP.

Wear items are unique to each type of equipment and were calculated in detail.

Labor rates were based on a recent survey (Downing Teal) of Australian pay scales. The survey gave a min-max range for each position and Fortescue has elected to use rates in the first quartile (minimum plus 75 percent of the difference between the minimum and maximum). A burden rate of 31.1 percent has been used, which includes superannuation (9 percent), workers compensation (1.1 percent), site allowance (15 percent), and payroll tax (6 percent).

A common industry practice is to use labor factors to assist in calculating maintenance personnel requirements. The labor factors consist of the number of maintenance hours required per operating hour for each category of equipment. The numbers of maintenance hours are accumulated and divided by the number of hours per man per year (2,583 in this case) to obtain the number of mechanics (fitters) required to maintain the equipment.

Field testing by MAN Takraf indicated that 75 percent of the alluvium is excavatable at the required BWE production rate and that the remaining 24 percent could be mined at a slower rate. Snowden has allowed for 25 percent of the alluvium to be drilled and blasted using a light powder factor. Snowden defined the minimum depth for BWE mining as five meters and the minimum length of the BWE cut as 900 meters. Snowden has also assumed that five percent of the alluvium will be at a thickness greater than the 30-meter maximum height for the BWE and beltwagon and will require dozing.

Experience in the test pit provided invaluable information in developing pick consumption costs for the surface miner.

Grade control drilling will be implemented on a 25x25-meter pattern with sampling at 0.5-meter intervals, resulting in 25,000 samples per year for both Cloud Break and Christmas Creek, or 50,000 samples per year in aggregate. Sampling consumables and assaying has been estimated at \$21.60 per sample.

Budget prices were received from Orica Explosives for bulk supply of wet and dry hole explosive products and blasting costs are based on the contractor supplying the magazines, product mixing tanks and delivery truck with driver, and the mixing and storage sheds. Fortescue will supply the blasting labor.

Hourly costs have been estimated for the ancillary equipment along with estimates of the average hours per day for each category.

As noted in the capital expenditure estimate section, Fortescue and Snowden have elected to reduce capital expenditures by hiring (leasing) the incremental equipment required to mine the spike in waste material during Periods (Years) 6 and 7 at Cloud Break and Periods (Years) 8, 9, and 10 at Christmas Creek. There appear to be problems with the calculations and WDC has requested clarification.

The Snowden cost estimates are extremely detailed and are more at the level of an operating budget than a feasibility study. Other than the hire equipment issue, WDC has not found any problems or overlooked items. WDC did not do a grassroots re-estimate of operating costs.

The Snowden mine operating costs were estimated using the following cost centers.

- Clear and grub (Ha x cost per Ha)
- Alluvium mining
  - Includes both BWE and shovel/truck operations. Due to protected worksheets (Snowden), this cannot be confirmed directly. However, there are Cloud Break costs in this cost center in the years before the BWEs are employed.
  - Costs do NOT include maintenance
  - Costs do NOT include the MSC, so this cost center should not be used to approximate the cost of BWE/MSD mining.
- Hardcap mining
  - Also includes internal waste
  - Includes ALL drilling and blasting costs
  - Does NOT include maintenance
- Ore mining
  - Surface miner operations
  - Grade control drilling
  - Does NOT include maintenance
- Transport
  - Overland conveyor

- Mobile stacking conveyor (MSC)
- Does NOT include maintenance
- Overheads
  - Support services
  - Maintenance
  - Supervision
  - Administration/management

At the request of WDC, Snowden has reformatted the operating cost estimate using the following cost centers, which include allocated maintenance:

- Clear and grub
- Waste mining by BWE/MSC
- Waste mining by shovel/truck
- Waste mining by surface miner/truck
- Ore mining by surface miner/truck/OLC
- Stockpile rehandling
- Auxiliary equipment
- Mine administration
- Hire equipment adjustment

Mine operating costs are summarized in Table 13 (per wet tonne) and in Table 14 (per dry tonne).



Table 14—Mine Operating Costs (Unit costs are per DRY tonne)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	Total
<b>Mining Period</b>																					
<b>Cloud Break (\$x1000)</b>																					
Clear & Grub	1,279	3,510	3,855	1,903	1,938	3,712	2,828	2,604	2,015	2,181	2,076	1,612	1,612	1,612	1,612	1,012	1,012	1,012	1,339	34,299	
Waste by BWE/MSC	2,225	9,866	32,745	28,479	24,414	30,104	28,560	15,712	15,095	15,963	14,414	11,919	11,919	11,919	11,919	11,919	2,488	2,488	2,488	279,662	
Waste by shovel/truck	28,199	72,489	92,082	54,998	55,603	123,579	93,103	71,887	55,422	55,831	43,256	21,999	21,973	21,996	21,961	22,005	37,880	37,880	37,880	896,173	
Waste by surface miner/truck	2,634	23,518	21,342	11,195	8,473	15,308	9,191	11,143	11,237	13,256	14,714	4,903	4,904	4,904	4,904	4,904	2,849	2,849	2,849	169,378	
Ore by surface miner/truck	7,968	42,749	49,570	30,788	33,377	39,131	27,365	36,585	24,624	25,543	32,794	10,626	10,627	10,627	10,627	10,627	6,860	6,860	6,860	410,485	
O.L.C.	769	3,807	4,298	2,348	2,597	1,875	2,199	1,758	1,758	1,741	2,089	743	743	743	743	743	652	652	652	30,001	
Stockpile rehandling	16,120	32,346	38,600	27,207	26,002	41,118	33,703	28,741	24,985	25,565	23,995	13,593	13,565	13,565	13,565	13,565	15,599	15,599	15,599	401,835	
Auxiliary equipment	8,731	17,162	20,754	14,804	14,381	21,097	16,796	15,329	13,112	13,620	13,338	7,944	7,944	7,944	7,944	7,944	8,060	8,060	8,060	216,815	
Mine administration	67,923	205,448	263,246	171,722	166,421	276,586	215,423	184,199	148,248	153,699	146,595	72,740	72,687	72,619	72,674	72,718	75,728	75,728	75,728	0	2,438,649
Subtotal	0	36,730	44,087	677	13	49,088	20,581	8,884	97	16	16	0	0	0	0	0	0	0	0	0	160,188
Hire Equipment Adjustment	67,923	242,178	307,333	172,399	166,434	325,644	256,005	193,083	148,345	153,715	146,611	72,740	72,687	72,619	72,674	72,718	75,728	75,728	75,728	0	2,598,836
CB Total (\$ x 1000)	50,791	192,996	298,737	201,048	183,838	337,945	266,469	196,631	155,429	156,522	140,719	72,686	72,686	72,686	72,686	72,686	73,572	73,572	73,572	0	2,618,126
Total material mined	1,34	1,25	1,03	0,86	0,91	0,96	0,89	0,98	0,95	0,98	1,04	1,00	1,00	1,00	1,00	1,00	1,03	1,03	1,03	0,00	0,99
\$/dmt																					
<b>Christmas Creek (\$x1000)</b>																					
Clear & Grub	0	0	0	0	0	1,770	2,028	3,938	5,775	4,166	2,791	2,215	2,610	2,610	2,610	2,610	3,881	3,881	3,881	47,374	
Waste by BWE/MSC	0	0	0	0	2,571	3,261	7,118	9,079	17,028	27,839	18,375	26,683	26,683	26,683	26,683	26,683	28,133	28,133	28,133	361,57	
Waste by shovel/truck	0	0	0	0	21,890	55,910	79,792	66,763	60,889	53,119	30,362	47,220	47,125	47,188	47,238	47,187	75,512	75,512	75,512	75,509	
Waste by surface miner/truck	0	0	0	0	24,498	18,280	50,340	105,870	65,353	49,070	37,837	33,933	33,933	33,933	33,933	33,933	39,474	39,474	39,474	639,334	
Ore by surface miner/truck	0	0	0	0	36,487	37,536	76,048	90,605	57,715	65,011	39,024	50,531	50,531	50,531	50,531	50,531	61,491	61,491	61,491	839,373	
O.L.C.	0	0	0	0	1,792	1,572	3,516	4,860	3,282	3,201	2,178	2,556	2,556	2,556	2,556	2,556	3,088	3,088	3,088	42,621	
Stockpile rehandling	0	0	0	0	18,061	23,516	32,980	37,154	31,508	30,517	23,497	24,370	24,342	24,342	24,342	24,342	30,882	31,003	31,003	411,858	
Auxiliary equipment	0	0	0	0	10,282	12,971	18,346	21,825	17,810	16,908	13,845	14,401	14,401	14,401	14,401	14,401	16,491	17,078	17,078	235,226	
Mine administration	0	0	0	0	117,351	155,073	272,079	341,931	256,952	248,456	167,333	202,302	202,179	202,243	202,243	202,243	276,293	276,293	276,293	0	3,373,384
Subtotal	0	0	0	0	12,839	30,002	58,577	21,879	14,943	15,96	7,710	7,586	7,586	7,586	7,586	7,586	28,507	28,180	28,180	485	243,045
Hire Equipment Adjustment	0	0	0	0	117,351	167,912	302,081	380,308	278,830	263,399	168,728	210,012	209,766	209,829	209,829	209,829	287,458	295,888	295,888	304,473	485
CC Total (\$ x 1000)	0	0	0	0	66,215	114,078	202,046	233,538	208,803	233,719	142,576	198,646	198,646	198,646	198,646	198,646	257,644	257,644	257,644	0	2,967,135
Total material mined	0	0	0	0	1,77	1,47	1,50	1,63	1,34	1,13	1,18	1,06	1,06	1,06	1,06	1,06	1,12	1,12	1,12	1,18	1,22
\$/dmt																					
<b>Project Total (\$x1000)</b>																					
Clear & Grub	1,279	3,510	3,855	1,903	1,938	5,740	6,766	8,379	6,181	4,972	4,292	3,621	3,621	3,621	3,621	3,621	5,220	5,220	5,220	3,881	0
Waste by BWE/MSC	2,225	9,866	32,745	28,479	24,414	30,104	28,560	15,712	15,095	15,963	14,414	11,919	11,919	11,919	11,919	11,919	36,157	36,157	36,157	44,181	0
Waste by shovel/truck	28,199	72,489	92,082	54,998	55,603	123,579	93,103	71,887	55,422	55,831	43,256	21,999	21,973	21,996	21,961	22,005	37,880	37,880	37,880	75,509	0
Waste by surface miner/truck	2,634	23,518	21,342	11,195	8,473	15,308	9,191	11,143	11,237	13,256	14,714	4,903	4,904	4,904	4,904	4,904	38,836	38,836	38,836	39,474	0
Ore by surface miner/truck	7,968	42,749	49,570	30,788	33,377	39,131	27,365	36,585	24,624	25,543	32,794	10,626	10,627	10,627	10,627	10,627	68,351	68,351	68,351	61,491	0
O.L.C.	769	3,807	4,298	2,348	2,597	1,875	2,199	1,758	1,758	1,741	2,089	743	743	743	743	743	3,298	3,298	3,298	3,088	0
Stockpile rehandling	16,120	32,346	38,600	27,207	26,002	41,118	33,703	28,741	24,985	25,565	23,995	13,593	13,565	13,565	13,565	13,565	37,907	37,907	37,907	31,003	0
Auxiliary equipment	8,731	17,162	20,754	14,804	14,381	21,097	16,796	15,329	13,112	13,620	13,338	7,944	7,944	7,944	7,944	7,944	22,345	22,345	22,345	17,078	0
Mine administration	67,923	205,448	263,246	171,722	166,421	276,586	215,423	184,199	148,248	153,699	146,595	72,740	72,687	72,619	72,674	72,718	75,728	75,728	75,728	0	5,812,033
Subtotal	0	36,730	44,087	677	13	49,088	20,581	8,884	97	16	16	0	0	0	0	0	28,507	28,180	28,180	485	0
Hire equipment adjustment	67,923	242,178	307,333	172,399	166,434	325,644	256,005	193,083	148,345	153,715	146,611	72,740	72,687	72,619	72,674	72,718	75,728	75,728	75,728	0	5,812,033
Total (\$ x 1000)	50,791	192,996	298,737	201,048	183,838	337,945	266,469	196,631	155,429	156,522	140,719	72,686	72,686	72,686	72,686	72,686	73,572	73,572	73,572	0	5,812,033
Total material mined	1,34	1,25	1,03	0,86	0,91	0,96	0,89	0,98	0,95	0,98	1,04	1,00	1,00	1,00	1,00	1,00	1,03	1,03	1,03	0,00	0,99
\$/dmt																					



As of June 2006, there are two developments, which must be mentioned in connection with mine cash operating costs. Subsequent to completion of the Mining Feasibility Study by Snowden and Fortescue in April 2006, Fortescue entered into a long-term mining alliance with Roche Mining to be known as the Pilbara Mining Alliance (PMA). One of the purposes of the PMA is to mitigate the problems of delivery time on certain long lead-time mining equipment items. See Section 5.0 of this Executive Summary. Since Roche will be providing equipment and providing contract mining services, the effective cash mining cost per tonne of material mined will be higher than it would have been if Fortescue were doing its own mining with its own equipment (the scenario in the Mining Feasibility Study). At this time, there is no Fortescue estimate of what the difference will be since PMA meetings on charges for mining and other issues will begin on June 29, 2006. The difference will depend on the charges per tonne of material moved with equipment owned or leased by Roche, on the quantities of material moved with that equipment, and other factors such as Roche’s fee. Fortescue intends to acquire its own fleets as soon as possible. Once the Fortescue owned and/or Fortescue leased equipment is on site, the contract mining costs should decrease, however there will still be a cost increment over the Snowden cost estimates, all other things being equal, for Roche’s charges, since Roche will continue to provide operations and maintenance services on a contract basis.

The second issue is the cost of electric power for the mine operation. At Fortescue’s direction Snowden used a cost of \$0.14 per kWh in its operating cost estimates. More recent information is that at least in the early months of mining when power will be supplied by diesel generators, this cost could be more in the area of \$0.20 per kWh. Based on discussions with Fortescue engineers, there are various options for long term power supply which include bringing a transmission line in from Newman, installation of a diesel-fired power plant at the mine area, or installation of a gas-fired power plant at the mine area with the gas supply transported in via a pipeline in the rail corridor. The option currently favored by Fortescue is an overhead transmission line. In view of the time required to permit and build a transmission line, it seems unavoidable that power will have to be provided by diesel-fired generating sets at least for the early months of mining. During this period the projected cost of \$0.20 per kWh for electric power seems appropriate.

**12.2. Project Infrastructure**

A cash operating cost estimate for rail operations, port operations, mine infrastructure, and administration was prepared by ProMet Engineers and submitted in their November 2005 report numbered C5113-RP-Rev1. The estimate was updated by Fortescue in March 2006. The estimate in 2006 Australian dollars is summarized below. The unit costs are based on 45 million tonnes of iron ore produced and shipped per year.

<u>Area</u>	<u>Annual Cost A\$</u>	<u>Unit Cost A\$/mt</u>	<u>% of Total</u>
<b>TPI Operating Cost</b>			
Mine Area Infrastructure .....	\$ 12,089,142	\$0.27	5.0
Rail Operations .....	\$102,236,510	\$2.27	42.5
Port Operations .....	\$ 59,373,200	\$1.32	24.7
Administration .....	\$ 28,953,375	\$0.64	12.0
Subtotal .....	<u>\$202,652,228</u>	<u>\$4.50</u>	<u>84.3</u>
Crushing & Screening Plant .....	\$ 37,878,909	\$0.84	15.7
Total TPI and C,S&P .....	<u>\$240,531,137</u>	<u>\$5.34</u>	<u>100.0</u>

The major criteria used in preparing the estimate are summarized in Table 15. Table 16 presents a summary by area as to variable and fixed costs, while Table 17 summarizes the costs by estimating element (power, water, etc.). The items that are included in mine infrastructure and administrative costs are listed in Table 18. The future beneficiation plant operating costs are estimated to be \$A1.04 per tonne of product.

For each of the four TPI areas in Table 16 (Rail, Port, Mine Infrastructure and Administration), an allowance of 10 percent for miscellaneous has been included in the total operating cost estimate. This allowance could also be considered a contingency to the more detailed cost estimate. The crushing, screening and desliming operating cost is based on a take-off for labor, power and consumables and is deemed to be accurate, but no miscellaneous allowance is included. In WDC's opinion, the total operating cost estimate has been constructed in a thorough manner. WDC takes no exceptions to the estimate.

**Table 15—Major Criteria for Operating Cost Estimate**

**1.0 Basis of Estimate used by Fortescue in preparing operating cost estimates**

- 1.1 Supplier quotations.
- 1.2 Information provided by expert consultants on project.
- 1.3 Operational expertise within FMG.
- 1.4 ProMet's "in-house" information database.
- 1.5 First principle estimates.
- 1.6 Annual production rate of 45Mtpa.
- 1.7 Exchange rate of A\$1=US\$0.75.
- 1.8 Diesel fuel price of \$US60/bbl after Federal Government Energy Credit.
- 1.9 Project details as outlined in the March, 2006 infrastructure briefing memo and supporting engineering for each project area.

**2.0 Estimate accuracy**

- 2.1 The operating costs have an accuracy of +/-15 percent.
- 2.2 The estimated is based on costs as of first quarter 2006.

**3.0 Exclusions to operating costs**

- 3.1 Corporate charges.
- 3.2 Working capital.
- 3.3 Project finance charges.
- 3.4 Depreciation and accounting effects.
- 3.5 Escalation.
- 3.6 Capital cost (initial and sustaining).
- 3.7 Foreign exchange rate variations.
- 3.8 Taxation including GST.
- 3.9 Carbon tax.
- 3.10 Housing costs.
- 3.11 Marine towing and stevedoring charges.
- 3.12 Third-party costs for use of TPI provided utilities.

**Table 16—Operating Cost Estimate (Variable, Fixed and Miscellaneous Cost Centers)**

	<u>Annual Cost A\$</u>	<u>Unit Cost A\$/tonne Product</u>	<u>% of Total</u>
<i>Mine Infrastructure (Note 1)</i>			
Variable .....	\$ 2,716,153	\$0.060	1.1
Fixed .....	\$ 8,273,976	\$0.184	3.4
Miscellaneous .....	<u>\$ 1,099,013</u>	<u>\$0.024</u>	<u>0.5</u>
Subtotal .....	\$ 12,089,142	\$0.269	5.0
<i>Rail</i>			
Variable .....	\$ 74,495,032	\$1.655	31.0
Fixed .....	\$ 18,447,250	\$0.410	7.7
Miscellaneous .....	<u>\$ 9,294,228</u>	<u>\$0.207</u>	<u>3.9</u>
Subtotal .....	\$102,236,510	\$2.272	42.5
<i>Port</i>			
Variable .....	\$ 28,725,117	\$0.638	11.9
Fixed .....	\$ 25,250,520	\$0.561	10.5
Miscellaneous .....	<u>\$ 5,397,564</u>	<u>\$0.120</u>	<u>2.2</u>
Subtotal .....	\$ 59,373,200	\$1.319	24.7
<i>Administration</i>			
Variable .....	\$ 0	\$0.000	0.0
Fixed .....	\$ 26,321,250	\$0.585	10.9
Miscellaneous .....	<u>\$ 2,632,125</u>	<u>\$0.058</u>	<u>1.1</u>
Subtotal .....	\$ 28,953,375	\$0.643	12.0
<i>TPI Infrastructure Total</i>			
Variable .....	\$105,936,302	\$2.354	44.0
Fixed .....	\$ 78,292,996	\$1.740	32.6
Miscellaneous .....	<u>\$ 18,422,930</u>	<u>\$0.409</u>	<u>7.7</u>
Subtotal .....	\$202,652,228	\$4.504	84.3
<i>Crushing, Screening and Desliming</i>			
Variable .....	\$ 27,121,013	\$0.603	11.3
Fixed .....	\$ 10,757,896	\$0.239	4.5
Miscellaneous .....	<u>\$ 0</u>	<u>\$0.000</u>	<u>0.0</u>
Subtotal .....	\$ 37,878,909	\$0.842	15.7
<i>Total TPI Infrastructure and C,S&amp;D</i>			
Variable .....	\$133,057,315	\$2.957	55.3
Fixed .....	\$ 89,050,892	\$1.979	37.0
Miscellaneous .....	<u>\$ 18,422,930</u>	<u>\$0.409</u>	<u>7.7</u>
Subtotal .....	\$240,531,137	\$5.346	100.0

**Table 17—Operating Cost Estimate by Consumption Item (Annual Cost A\$)**

Cost Center	Mine				Administration	Crushing, Screening, Desliming	Total
	Infrastructure	Rail	Port				
Fuel .....	\$ 35,944	\$ 16,069,838	\$ 859,188				\$ 16,964,970
Power .....	\$ 3,157,079	\$ 7,239	\$ 9,674,549			\$19,376,550	\$ 32,215,417
Water .....	\$ 102,656	\$ 6,625	\$ 1,326,000				\$ 1,435,281
Other consumables/variable costs ...	\$ 1,294,000	\$ 1,900,000	\$ 875,000			\$ 7,744,463	\$ 11,813,463
Outsourced costs .....		\$ 56,511,330					\$ 56,511,330
Personnel .....	\$ 2,900,600	\$ 13,870,250	\$15,165,900	\$ 5,870,950		\$10,757,896	\$ 48,565,596
Maintenance Matl & Shutdown .....	\$ 3,499,850	\$ 4,002,000	\$ 6,630,000				\$ 14,131,850
Communications & signal Matl .....		\$ 575,000					\$ 575,000
Port maintenance .....			\$ 9,445,000				\$ 9,445,000
Demurrage .....			\$10,000,000				\$ 10,000,000
Indirect expenses .....				\$20,450,300			\$ 20,450,300
Miscellaneous .....	\$ 1,099,013	\$ 9,294,228	\$ 5,397,564	\$ 2,632,125			\$ 18,422,930
<b>TOTAL .....</b>	<b>\$12,089,142</b>	<b>\$102,236,510</b>	<b>\$59,373,200</b>	<b>\$28,953,375</b>		<b>\$37,878,909</b>	<b>\$240,531,137</b>

**Unit Cost A\$/tonne**

Cost Center	Infrastructure	Rail	Port	Administration	Crushing, Screening, Desliming	Total
Fuel .....	\$ 0.00	\$ 0.36	\$ 0.02	\$ 0.00	\$ 0.00	\$ 0.38
Power .....	\$ 0.07	\$ 0.00	\$ 0.21	\$ 0.00	\$ 0.43	\$ 0.72
Water .....	\$ 0.00	\$ 0.00	\$ 0.03	\$ 0.00	\$ 0.00	\$ 0.03
Other consumables/variable costs ...	\$ 0.03	\$ 0.04	\$ 0.02	\$ 0.00	\$ 0.17	\$ 0.26
Outsourced costs .....	\$ 0.00	\$ 1.26	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1.26
Personnel .....	\$ 0.06	\$ 0.31	\$ 0.34	\$ 0.13	\$ 0.24	\$ 1.08
Maintenance Matl & Shutdown .....	\$ 0.08	\$ 0.09	\$ 0.15	\$ 0.00	\$ 0.00	\$ 0.31
Communications & signal Matl .....	\$ 0.00	\$ 0.01	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.01
Port maintenance .....	\$ 0.00	\$ 0.00	\$ 0.21	\$ 0.00	\$ 0.00	\$ 0.21
Demurrage .....	\$ 0.00	\$ 0.00	\$ 0.22	\$ 0.00	\$ 0.00	\$ 0.22
Indirect expenses .....	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.45	\$ 0.00	\$ 0.45
Miscellaneous .....	\$ 0.02	\$ 0.21	\$ 0.12	\$ 0.06	\$ 0.00	\$ 0.41
<b>TOTAL .....</b>	<b>\$ 0.27</b>	<b>\$ 2.27</b>	<b>\$ 1.32</b>	<b>\$ 0.64</b>	<b>\$ 0.84</b>	<b>\$ 5.35</b>

**Cost Distribution, Percent of Total**

Cost Center	Infrastructure	Rail	Port	Administration	Crushing, Screening, Desliming	Total
Fuel .....	0.0	6.7	0.4	0.0	0.0	7.1
Power .....	1.3	0.0	4.0	0.0	8.1	13.4
Water .....	0.0	0.0	0.6	0.0	0.0	0.6
Other consumables/variable costs ...	0.5	0.8	0.4	0.0	3.2	4.9
Outsourced costs .....	0.0	23.5	0.0	0.0	0.0	23.5
Personnel .....	1.2	5.8	6.3	2.4	4.5	20.2
Maintenance Matl & Shutdown .....	1.5	1.7	2.8	0.0	0.0	5.9
Communications & signal Matl .....	0.0	0.2	0.0	0.0	0.0	0.2
Port maintenance .....	0.0	0.0	3.9	0.0	0.0	3.9
Demurrage .....	0.0	0.0	4.2	0.0	0.0	4.2
Indirect expenses .....	0.0	0.0	0.0	8.5	0.0	8.5
Miscellaneous .....	0.5	3.9	2.2	1.1	0.0	7.7
<b>TOTAL .....</b>	<b>5.0</b>	<b>42.5</b>	<b>24.7</b>	<b>12.0</b>	<b>15.7</b>	<b>100.0</b>

*Table 18—Mine Infrastructure and Administration Operating Cost Estimate*

	<u>Annual Cost A\$</u>	<u>Unit Cost A\$/tonne Product</u>	<u>% of Area</u>
<i>Mine Infrastructure (Note 1)</i>			
Variable Costs			
Fuel .....	\$ 35,944	\$0.001	0.3
Power .....	\$ 1,283,553	\$0.029	10.6
Water .....	\$ 102,656	\$0.002	0.8
Other mine costs .....	\$ 0	\$0.000	0
Other consumables .....	\$ 1,294,000	\$0.029	10.7
Subtotal Variable Costs .....	\$ 2,716,153	\$0.060	22.5
Fixed Costs			
Power .....	\$ 1,873,526	\$0.042	15.5
Personnel .....	\$ 2,900,600	\$0.064	24
Maintenance Matl's & shutdowns .....	\$ 3,499,850	\$0.078	29
Subtotal Fixed Costs .....	\$ 8,273,976	\$0.184	68.4
Miscellaneous .....	\$ 1,099,013	\$0.024	9.1
Total Mine Infrastructure .....	\$12,089,142	\$0.269	100.0
<i>Administration</i>			
Indirect expenses .....	\$20,450,300	\$0.454	70.6
Pt Hedland Administration			
Personnel .....	\$ 5,870,950	\$0.130	20.3
Office Costs (included in indirects) .....	\$ 0	\$0.000	0
Subtotal .....	\$ 5,870,950	\$0.130	20.3
Miscellaneous .....	\$ 2,632,125	\$0.058	9.1
Total Administration .....	\$28,953,375	\$0.643	100.0

Note 1: The Mine Infrastructure cost includes \$0.053/tonne listed in Table 6-5 of the WDC full report for Mine Stockpiling and Train Loading.

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**APPENDIX C**  
**CHRISTMAS CREEK AND CLOUD BREAK MINING LEASES AND**  
**MINING LEASE APPLICATIONS**

Christmas Creek Tenements	Cloud Break Tenements	
M46/320	M46/413 (application)	M45/1102
M46/321	M46/414 (application)	M45/1103
M46/322	M46/415	M45/1104
M46/323	M46/416	M45/1105
M46/324	M46/417	M45/1106
M46/325	M46/418	M45/1107
M46/326	M46/419	M45/1082
M46/327	M46/420	M45/1083
M46/328	M46/421	M45/1084
M46/329	M46/422	M45/1085
M46/330	M46/423 (application) <sup>(1)</sup>	M45/1124
M46/331	M46/424 (application) <sup>(1)</sup>	M45/1125
M46/332	M46/403 (application) <sup>(1)</sup>	M45/1126
M46/333	M46/406 (application) <sup>(1)</sup>	M45/1127
M46/334		M45/1128
M46/335		M45/1138 (application)
M46/336		M45/1139 (application)
M46/337		M45/1140 (application)
M46/338		M45/1141 (application)
M46/339		M45/1142 (application)
M46/340		M46/356
M46/341		M46/357
M46/342		M46/401 (application) <sup>(1)</sup>
M46/343		M46/402 (application) <sup>(1)</sup>
M46/344		M46/404 (application) <sup>(1)</sup>
M46/345		M46/405 (application) <sup>(1)</sup>
M46/346		M46/407 (application)
M46/347		M46/408 (application)
M46/348		M46/409 (application)
M46/349		M46/410
M46/350		M46/411
M46/351		M46/449 (application)
M46/352		M46/450 (application)
M46/353		M46/451 (application)
M46/354		M46/452 (application)
M46/355		M46/453 (application)
M46/412 (application)		M46/454 (application)

Note: "M" means mining lease  
(1) Previously Sandy Creek

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**APPENDIX D**  
**CERTAIN DEFINED TERMS**

ASIC .....	The Australian Securities and Investments Commission
assay .....	An analysis to determine the presence, absence and quantity of one or more elements
ASX .....	Australian Stock Exchange Limited
Banded Iron Formation .....	A rock consisting of alternating bands of iron oxides and cherty silica
c/dmtu .....	U.S. cents per dry metric tonne unit
Chichester .....	FMG Chichester Pty Ltd
Corporations Act .....	<i>Corporations Act 2001</i> (Cth)
CRU .....	CRU Strategies Ltd of 31 Mount Pleasant, London, WC1X 0AD, United Kingdom, the management consulting company specializing in the international metals, mining and electricity industries that provided the CRU Report
CRU Report .....	The independent assessment of the iron ore market and Fortescue iron ore product provided by CRU
Definitive Feasibility Study .....	The Mine Feasibility Study and the Infrastructure Feasibility Study, together
dmtu .....	dry metric tonne unit
EBIT .....	Earnings before interest and tax
EBITDA .....	Earnings before interest, tax, depreciation and amortization
Exploration License .....	An area over which the holder has the exclusive right to explore for minerals beneath the surface. An Exploration License must be converted to Mining Lease for extractive mining to occur. See “Description of Certain Project Approvals and Australian Legal Matters”
Fe .....	The chemical symbol for iron
FMG Finance .....	FMG Finance Pty Ltd
Fortescue .....	Fortescue Metals Group Limited ACN 002 594 872
High Grade Fines .....	A Project product typically containing approximately 60.2% Fe
indicated mineral resource .....	As defined in the JORC Code, that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed

inferred mineral resource . . . . .	That part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability
Infrastructure Feasibility Study . . . . .	The feasibility study prepared for the Pilbara Iron Ore and Infrastructure Project for the port and rail system by WorleyParsons dated September 8, 2005, and its subsequent iterations and updates.
Infrastructure State Agreement . . . . .	The Railway and Port (The Pilbara Infrastructure Pty Ltd) Agreement entered into by the State of Western Australia, on the one hand, and TPI and Fortescue, on the other hand, on November 10, 2004
JORC Code . . . . .	The Australasian Code for Reporting of Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Mineral Council of Australia, as amended or supplemented
km . . . . .	Kilometer
Leucadia . . . . .	Leucadia National Corporation
m . . . . .	Meter
measured mineral resource . . . . .	As defined in the JORC Code, that part of a mineral resource for which tonnage densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.
Mine Feasibility Study . . . . .	The mine feasibility study completed by Fortescue as a compilation of studies by professionals and independent consultants on April 19, 2006
Mine Plan Area . . . . .	The area covered by the Mine Plan Tenements
Mine Plan Tenements . . . . .	The tenements that form the basis of the Project, as set out in Appendix C.
mineral resource . . . . .	As defined in the JORC Code, a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quantity and quality that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories

Mining Act	<i>Mining Act 1978 (WA)</i>
Mining Lease	Authorization granted by state mining authorities entitling the holder to mine for and dispose of any minerals on the land in respect of which the Mining Lease is granted. See “Description of Certain Project Approvals and Australian Legal Matters”
Mining State Agreement	The Iron Ore (FMG Chichester Pty Ltd) Agreement between Fortescue and Chichester, on the one hand, and the State of Western Australia, on the other hand, dated December 1, 2005, which governs the process by which it is proposed that Chichester will be granted regulatory approvals required to undertake mining activities on the Mine Plan Tenements
mt	million tonnes
mtpa	million tonnes per annum
mtu	metric tonne unit
Native Title Act	<i>Native Title Act 1993 (Cth)</i>
Native Title Tribunal	The Australian National Native Title Tribunal
Offtake Agreements	The 28 agreements to supply iron ore produced from the Project that the Project Group and Fortescue have entered into.
Ore Reserves	As defined in the JORC Code, the economically mineable part of a measures mineral resource and/or an indicated mineral resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore reserves are sub-divided in order of increasing confidence into probable ore reserves and proved ore reserves.
PMA	Pilbara Mining Alliance Pty Ltd
probable ore reserve	As defined in the JORC Code, the economically mineable part of an indicated mineral resource, and in some circumstances, a measured mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.
Project	The Pilbara Iron Ore and Infrastructure Project

Project Group	FMG Finance, Chichester, TPI and PMA
Project Guarantors	Chichester, TPI and PMA
proved ore reserve	As defined in the JORC Code, the economically mineable part of a measured mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified
Snowden Report	The report prepared by Snowden Mining Industry Consultants in respect of the Mine Plan Tenements dated July 11, 2006
Super Value Fines	A Project product typically containing approximately 58.7% Fe
t	Tonne
Tenement	An area over which the holder is entitled to explore for minerals (see “Prospecting Licenses”, “Exploration Licenses”, “Mining Leases” “General Purpose Leases” and “Miscellaneous Licenses”)
tenure	A persons’s right to hold real property
tpa	Tonnes per annum
TPI	The Pilbara Infrastructure Pty Ltd, a wholly owned subsidiary of Fortescue
WorleyParsons	WorleyParsons Services Pty Ltd ABN 61 001 279 812



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US\$1,900,000,000

# FMG Finance Pty Ltd

% Senior Secured Fixed Rate Notes due  
Senior Secured Floating Rate Notes due



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OFFERING MEMORANDUM

, 2006

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Citigroup

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