ANNEXURE 1

REPORT ON THE LIKELY IMPACT OF DECLARATION OF THE MOUNT NEWMAN RAIL SERVICE ON THE MARKET FOR IRON ORE TENEMENTS

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This report considers the implications of the Draft Recommendation by the National Competition Council (NCC) for a declaration to issue in respect of the Mount Newman rail service owned and operated by BHP Billiton Minerals Pty Ltd, Itochu Minerals & Energy of Australia Pty Ltd & Mitsui-Itochu Iron Pty Ltd.

In considering this issue, it was necessary for the following aspects of the Draft Recommendation of the NCC dated November 2005 to be reviewed. Where relevant, during the course of my report I have made comments as to the relevant NCC findings regarding declaration criterion (a) of section 44G(2) of the Trade Practices Act 1974 - that access (or increased access) to the service would promote competition in at least one market (whether or not in Australia) other than the market for the service.. The relevant NCC findings are:

- The relevant product market based on the capability and substitutability is the market for the rights to mine specific iron ore deposits. This is characterised by the right to exploit a proven iron ore deposit, being the product dimension of the market for iron ore tenements.
- There is one potential producer (FMG) and at least 16 junior explorers with potential iron ore projects in the Pilbara. It is unlikely that more than a small minority of these junior explorers will succeed in becoming producers.
- The pool of potential purchasers for most iron ore tenements appear at present to be limited to those entities that already have rail and port infrastructure in place in the Pilbara, and those entities which have an enforceable right to, or reasonable prospects of being able to negotiate, access to rail and port infrastructure in the Pilbara.
- Exclusive control of rail infrastructure is likely to act as a strong disincentive to potential purchasers and must necessarily limit the potential for any iron ore tenement to be developed into an iron ore mine, or increase the risk that any project will not be able to proceed due to lack of access to rail infrastructure.

This report draws on my experience in the area of tenement administration in Western Australia between 1990 to date. In this regard, I attach to this report my curriculum vitae.

I have particular expertise in the area of iron ore tenements, acting for a number of clients who hold tenements in the Pilbara and are actively engaged in exploration for the purpose of defining commercially viable resources of iron ore. These clients fall into all three categories identified by the NCC as existing and potential producers, and junior explorers.

Since the application by FMG in June 2004 for the NCC to have the Mount Newman railway line declared an open access service, there has been some significant State legislative reform to the operation of the Mining Act 1978.

One of these key reforms has been repeal of the right to apply for a mining lease in the absence of evidence being provided that a defined mineral resource is capable, or likely to become capable, of economic exploitation.

As a consequence, effective from 10th February 2006, junior explorers will only be in a position to advance an iron ore project to mining lease and potential development in the event of exploration proving up an economic mineral resource.

The level of ground acquisition by junior explorers in the Pilbara by way of exploration licence has increased significantly over the last 12 months, driven by the projected long term demand for iron ore and speculation in relation to the continued upward trend in commodity price.

Significantly, due to their limited capitalised position, junior explorers are captive of commodity price and demand, whether real or perceived. This is well illustrated in the 'boom' conditions being experienced in the market for uranium. Notwithstanding the Western Australian government embargo on mining and export of uranium, junior explorers are successfully raising funds in the market and are actively progressing exploration to define mineral resources. These mineral resources will not be able to be developed under current medium to longer term government policy.

Notwithstanding these limitations, there continues to be a market for uranium tenements, including joint ventures, options to purchase or outright transfer for consideration. This demonstrates the speculative nature of the market and the extent to which the market is driven by demand and prices.

This level of interest is also mirrored in the iron ore sector, notwithstanding the nature of the market and significant issues of quality and location of resource, marketing, product development, transportation and shipping, for what is ostensibly a high volume commodity. These matters do not appear to have impacted upon or deterred ground acquisition for exploration, irrespective of whether there is evidence of prospectivity for the commodity.

Many exploration licence areas applied for by junior explorers have been acquired over areas with what is termed 'the right address' i.e. geographically located in proximity to existing known mineral deposits or existing producing mines and infrastructure corridors (including public roads).

Furthermore, the applicant for, or holder of an exploration licence, is not vested as of right with authority to explore for iron. Whilst exploration for other minerals is a basic tenet of the legislation, rights to explore for iron require the express authority and approval of the Minister for State Development under Section 111 of the Mining Act 1978. Even if this approval is obtained, an applicant does not automatically have the right to mine and develop a resource. This right requires further express authority and approval of the Minister.

The significance of these requirements is that they require the proponent to establish by way of geological prognosis that the ground is prospective for iron (within a known iron ore province) and that they have the financial and technical capability to explore the tenement area for iron.

There is evidence from my research of announcements by public listed junior explorers to the ASX of a clear intent for exploration to be progressed for defining and exploiting iron ore resources. This is in fact essential if exploration rights are to be maintained.

Under the statutory expenditure obligations of the Western Australian legislation, failure to comply (or have compelling grounds for exemption to be granted from these obligations) would result in forfeiture of exploration rights, and the loss of a potential mineral asset. That means these requirements impose an obligation for junior explorers to commit exploration expenditure and must prove up their deposits regardless of transportation options, or else they will lose their rights over those deposits.

Despite this, of the three companies researched, two were currently undertaking scoping studies for road transportation in conjunction with their future iron ore developments. The third company has entered into Joint Ventures to fund exploration of substantial exploration holdings it has acquired in the Pilbara. This Company's corporate objective sees iron ore as a longer term strategic market to participate in.

In the current market there is keen competition within the ranks of junior exploration companies to get a foot hold on prospective ground in the Pilbara region. Having access to exploration tenements with a 'good address' has a significant impact on the share price of that entity. The ability to raise capital, which is the lifeblood of junior exploration, is highly dependent on favourable share market sentiment.

Nowhere is this better illustrated than in the frenzy that followed the acquisition of the Shovelanna Deposit by Cazaly Resources Ltd which was inadvertently relinquished by Rio Tinto Exploration Pty Ltd in September 2005.

Speculation drove up the share price of both Cazaly Resources Ltd and Echelon Resources Ltd - which was attracted by way of Joint Venture farm-in, to acquire a 20% stake holding by virtue of its participation.

The market for the transactional dealings in the new iron ore tenement at Shovelanna was in no way influenced by the presence or market power of BHP Billiton Iron Ore Pty Ltd which is in the process of developing its Orebody 18, immediately adjacent to the Shovelanna resource.

In reviewing the ground holding position in the Pilbara region, there has been a dramatic change from what one could describe as a 'blank canvas' to one of 'full colour'. There is currently little, if any, remaining prospective ground available for application in the Pilbara region. Now that the canvas is 'full colour', any late-comer explorers to the market have no choice but to purchase or farm-in to existing tenements.

This in itself creates a market and competition for the rights to exploit tenements, with the more prospective areas obviously attracting higher premiums for the right to participate in their development.

Whilst the global demand for iron ore remains high, the commodity price will continue to increase commensurate with the capacity for existing producers to supply the market. In turn, the speculative end of the market will continue to feed off the back of the major producers, with the junior - low to mid cap explorers - continuing to compete for iron ore exploration tenements, necessary to sustain their share price.

However, should there be a downturn in the global economy (not foreshadowed in the short term), then the business cycle will impact significantly on the intrinsic and possibly empirical values of iron ore tenements, with a rapid return to the 'blank canvas'. This is a pattern which has previously been replicated in all fluctuating mineral commodity demand scenarios.

It is unlikely that there will be increase in competition in the market for iron ore tenements in the face of a declaration being made in relation to the Mount Newman rail service. This is because there are a number of other considerations - port infrastructure, shipping, marketability, product quality and mineral reserve - which will impact on values of tenements. These other considerations are as important if not more important than rail access.

Even if access is granted, there remains the issue of feasibility of road transportation of the commodity, and the economic cost of getting the product to the rail head. Haul roads for iron ore necessitate acquisition of appropriate tenure under the Mining Act 1978 by way of easement across alternate land users' holdings.

There is also the significant issue of negotiation of compensatory terms under the Native Title Act 1993 (NTA), which can be a very protracted process, often precipitating litigation through the Warden's Court and the Independent Person arbitration process under the NTA.

On balance, having regard for the above comments, I believe it is unlikely that a declaration will increase or promote competition in the market for iron ore tenements in the Pilbara.

C. Clegg - Principal

STATEWIDE TENEMENT & ADVISORY SERVICES PTY LTD

Brief Curriculum Vitae for Christopher Clegg

Current Position:

Principal of Statewide Tenement & Advisory Services Pty Ltd - Consultants to the Mining Industry in the areas of ground acquisition, tenure and exploration management, strategic planning, native title negotiations and dispute resolution. The Company specialises in State Agreement Act tenure management for the iron ore sector.

Commencement of Practice: October 1986

Client Base:

40 corporate & individual members of the Mining Industry.

Background:

Prior to commencing private practice I was employed for 17 years with the Department of Minerals & Energy (now known as Department of Industry & Resources), having worked in a number of the regional mining registries and titles management within the titles maintenance and registration arena.

I resigned from the Department in April 1986 at managerial level.

Current Affiliations:

The Company is currently a corporate member of the Australian Mining & Petroleum Law Association, and I was formerly a representative State Member of the West Australian Mining Law Information Committee of that Association.

I am currently a member of the Mining Act Regulation Committee for the Exploration Council at the Chamber of Minerals & Energy.

DATE : 20th December 2005