Research Report

Proactive Investors
Run by Investors for Investors

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TARGET A$0.45

Legacy Iron Ore: Undervalued "play", not lost on Indian and Chinese iron ore & steel groups

By Andrew McCrea

Legacy Iron Ore has the potential to develop into a significant iron ore player in light of the growing resource at Mt Bevan and developments at the corporate level.

With low strip ratios, coarse grind size, low silica and an average concentrate grade of 69.8% Fe, Legacy's Mt Bevan is beckoning a joint venture partner – with attractive project development parameters.

Importantly, the project is located close to road, rail and an existing deep water port, mitigating the need for excessive investment in infrastructure, notably port facilities. There is potential for early cash flows from DSO hematite.

All this is not lost on Indian and Chinese iron ore and steel groups. NMDC, India's largest iron ore group and looking to lock in iron ore supplies, has inked an MOU with Legacy to acquire 50% equity in the Company. This would enable Legacy to unlock and monetise the value inherent at Mt Bevan and gain large cash infusion.

Tellingly, the current JORC Inferred Resource at Mt Bevan is 617 million tonnes of iron at 32.1% (Fe). This is from drilling over only 4km of the 11km strike of the main iron ore target.

This Resource could be increased to 1.5 billion tonnes by the end of calendar year 2011 from next phase drilling over the remaining strike of this is target. This does not include the Exploration Target of 250 – 350 million tonnes for Mt Alexander, and the totally unexplored Eastern BIF which extends for some 20km within the project area.

On an EV/Resource basis, Legacy is undervalued relative to its peers at A$0.025 per tonne compared to a peer average value of A$0.75 per tonne. Throw in the potentially transformative NMDC transaction and likely upgrade in resource by the end of 2011 and the undervaluation has short term and longer term catalysts for re-rating of Legacy's share price.

Taking a line through neighbouring Jupiter Mines valuation of A$828 million (stripping out its non iron ore asset) for its Mt Ida and Mt Mason valuations, the mispricing in valuation of Legacy at A$32.6 million becomes more acute.

The undervaluation is good news for Legacy investors – however at some stage market forces will bring this valuation up in line with intrinsic future valuation of Legacy's project and potential.

Based on the foregoing, and after applying an appropriate discount, investors could see a Legacy valuation and share price greater than A$0.30 within six months and A$0.40 - A$0.45 within 12 months, if not sooner on the back of an NMDC offer.

Clearly, as the Legacy story starts to percolate the current valuation is unlikely to last.

Capital Structure

Sector	Materials
Share Price (A$)	0.14
Fully Paid Ordinary Shares (m)	233.1
Opt (ex $0.223, exp 07/01/12) (m)	45.1
Piggy Back Opt (ex $0.223, exp 7/1/13) (m)	28.0
Opt (ex $0.15, exp 31/12/12) (m)	14.0
Opt (ex $0.10, exp 31/12/12) (m)	14.0
Market Capitalisation (Undil) ($m)	32.6
Approx Cash (A$m)	5.8

Directors & Management

Timothy Turner	Non Exec Chairman
Sharon Heng	Managing Director
Tao Han	Exec Director
Ben Donovan	Company Secretary

Major Shareholders

Sharon Kia Le Heng	19.0%
Wealth Foreever Ltd	10.0%
Zorich Ltd	5.7%
HSBC Custody Nom Aust Ltd	4.4%
SHKIA Holdings Pty Ltd	4.0%

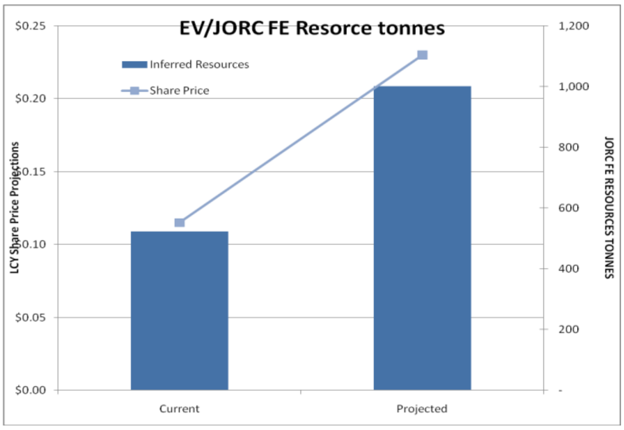
Analyst

Andrew McCrea & Guy Le Page

Share Price Performance

The next phase of drilling should substantially increase existing magnetite resources

INVESTMENT CASE



Legacy Iron Ore ("Legacy" or "the Company") has an excellent chance of doubling its share price in the short term on the back of an anticipated increase in Inferred Resources from 617 million tonnes to at least 1 billion tonnes by the end of calendar 2011. With NMDC having the right to subscribe for 50% of the issued capital of the Company, underpins the investment case.

COMPANY BACKGROUND

Legacy is a Perth-based Australian exploration company, established to search for iron ore and gold deposits and was listed on the ASX in July 2008. Since then, Legacy has focussed on iron ore exploration in the Central Yilgarn Province and Pilbara Iron Ore Province with the most recent development being the announcement of a maiden JORC Inferred Resource of 616.8 million tonnes at 32.1% Fe (15% Fe cut-off grade) on the back of their first phase drilling program at the Mt Bevan Joint Venture (Legacy earning 60%) for this first phase program.

INFERRED RESOURCES

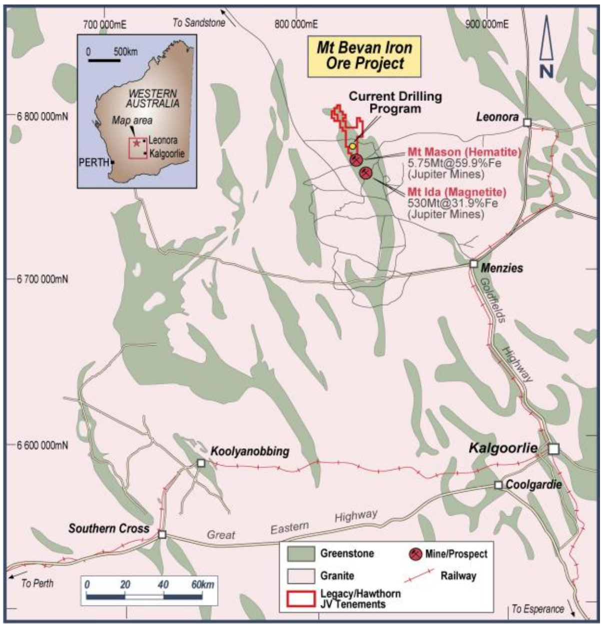
TABLE 1: Mt Bevan Iron Ore Project, Resource Statement (*source*: Legacy Iron Ore Limited, ASX Announcement 20th June 2011).

Cut off grade Fe %	Tonnes (Mt)	Fe %	SiO2 %	Al2O3 %	CaO %	P %	S %	LOI %
15	616.8	32.1	47.4	3.4	3.1	0.05	0.13	-0.25
25	522.2	34.4	46.8	2.5	2.7	0.06	0.13	-0.38

EXPLORATION OVERVIEW-IRON ORE

Mt Bevan Iron Ore Project

FIGURE 1: Mt Bevan Iron Ore Project, Yilgarn Province, Western Australia (*source*: Legacy Iron Ore Limited, ASX Announcement 20th June 2011).



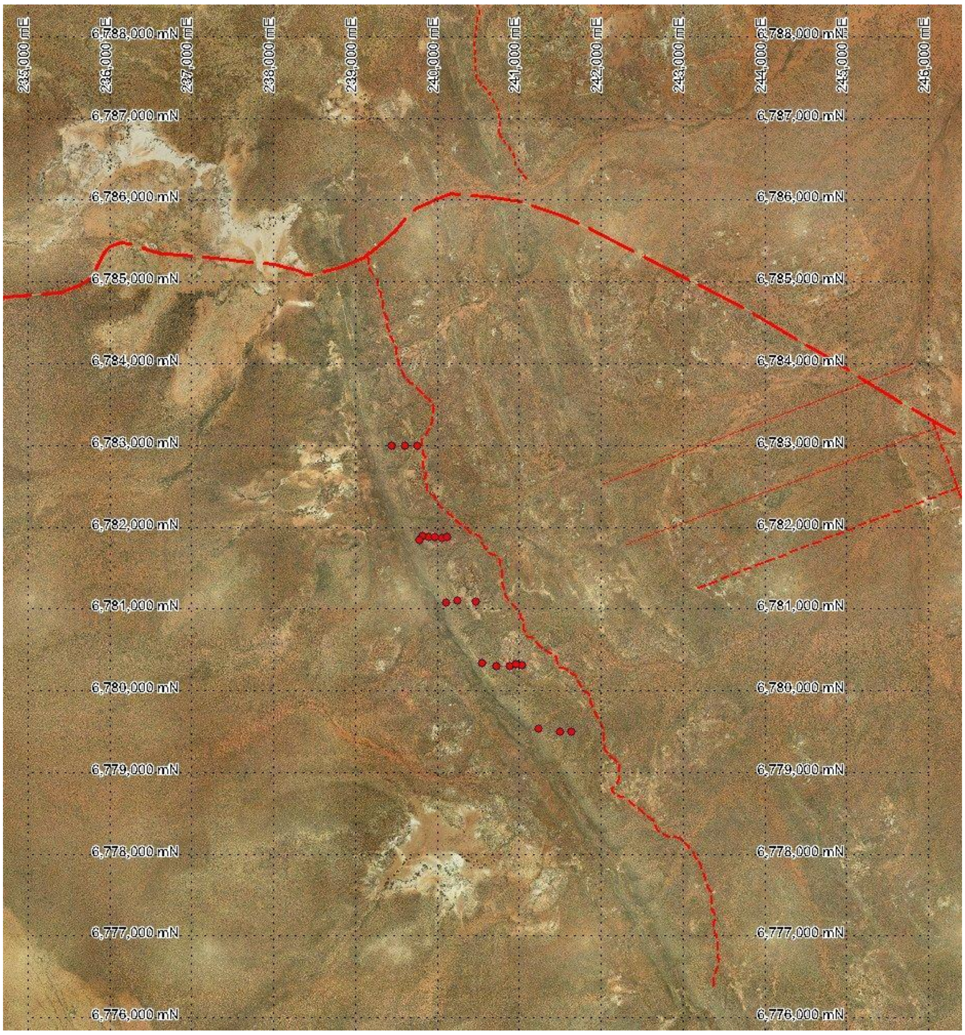
Legacy is earning 60% in the Mt Bevan Iron Ore Project (E29/210/E29/713), from Hawthorn Resources (ASX: HAW) via the expenditure of A$3.5 million with a view to completing a pre-feasibility study. The tenements, situated in the Central Yilgarn, are in close proximity to infrastructure (road, rail, port) and are prospective for Direct Shipping Ore (DSO) hematite and magnetite iron resources.

First Phase Drilling Successful

The recently completed first phase drilling program was located in the southern part of the Mt Bevan project area, to the immediate north of the significant magnetite and hematite resources held by Jupiter Mines (ASX: JMS) (Figure 1).

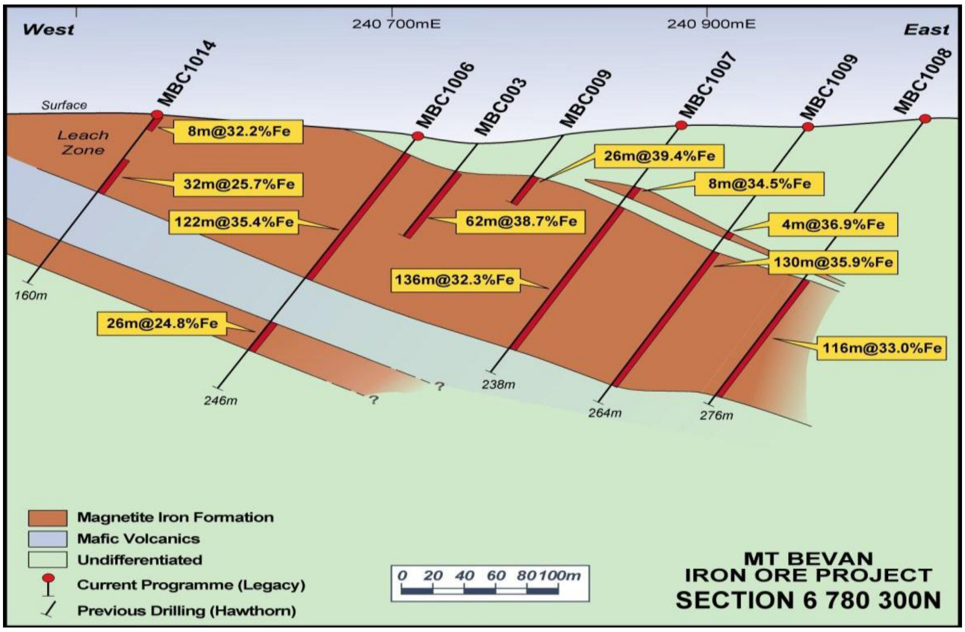
An initial 20 hole, 5,000 metre RC drill program (Figure 2) covering approximately 4.6km (representing 40% of the 11km of known strike length) of the Western Banded Iron Formation ("BIF") in the southern portion of the tenement area was completed in April 2011 at 1.0km line spacings and to vertical depths of up to 250 metres (ASX Announcement 23 May 2011).

FIGURE 2: Mt Bevan Iron Ore Project, Yilgarn Province, Western Australia, Legacy Iron Ore Limited first phase drill hole locations (*source*: Legacy Iron Ore Limited, ASX Announcement 20th June 2011).



Numerous ore grade intersections were returned with potentially mineable widths ranging from 80 – 140 metres in width and dipping shallowly to the east. Selected sections are represented below (Figure 3, Figure 4).

FIGURE 3: Mt Bevan Iron Ore Project section 5 780 300N showing drill hole traces and mineralisation (*source*: Legacy Iron Ore Limited, ASX Announcement 20th June 2011).



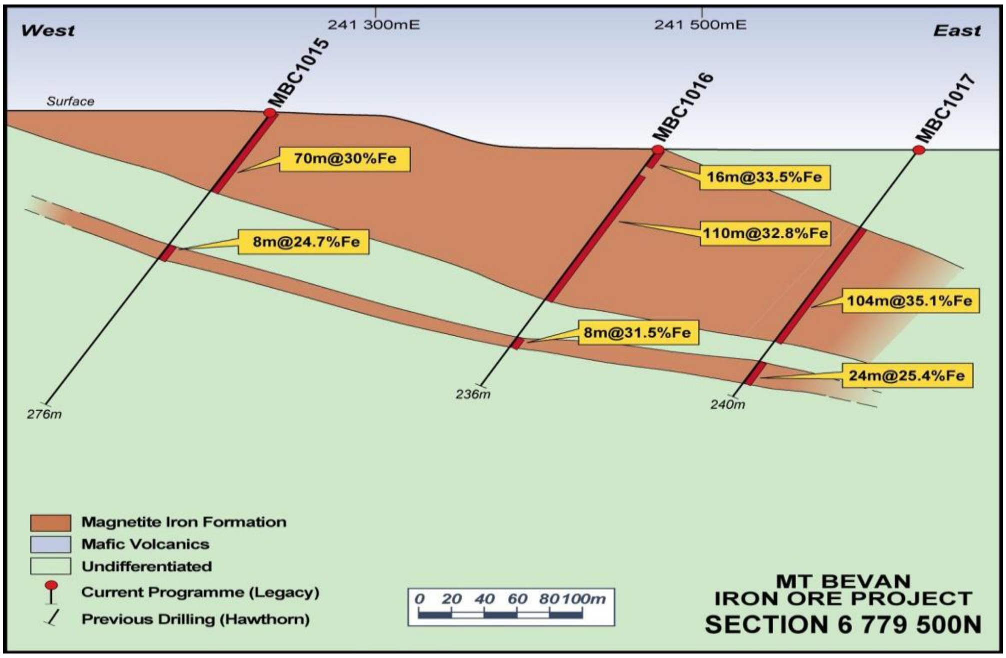


FIGURE 4: Mt Bevan Iron Ore Project section 6 779 500N showing drill hole traces and mineralisation (*source*: Legacy Iron Ore Limited, ASX Announcement 20th July 2011).

Resources and Exploration Potential

SRK Consulting completed a JORC compliant Inferred resource of 616.8 million tonnes at 32.1% Fe (15% Fe cut-off grade) based on this initial program. The Company has previously announced a magnetite exploration target in the range of 1 – 1.5 billion tonnes grading 30%-40% Fe which has subsequently been upgraded to 1.5 – 2 billion tonnes of similar grade for the southern part of the Western BIF mineralisation. Examination of Figures 3 and 4 indicate good continuity of mineralisation and grade both along strike and down dip.

The shallow dip and substantial thickness of the mineralisation will allow low waste ore stripping ratios, implying that final open cut depths could potentially far exceed the 250 metres vertical depth tested by drilling to date.

Recent reconnaissance field work to the north has identified Mt Alexander as having Exploration Potential for 250 – 350 million tonnes grading between 30 – 40% Fe, as well as potential for DSO hematite. The project area also contains the unexplored Eastern BIF unit that occupies some 20km strike within the project area. No drill testing for magnetite has been undertaken on this unit to date.

Given the extensive magnetite rich BIFs in the project area, the hematite resource on the southern boundary at Mt Mason, and recent nearby discoveries (Cliffs Mt Richardson deposit to the immediate west with a 100 – 150 million tonnes resource), there is considerable potential for DSO hematite resources which could present a near term cash flow opportunity

Davis Tube Testwork... confirms potential for a consistent, high quality product with low impurities

Favourable Metallurgical Results

Recent Davis Tube Testwork (DTR) by ALS laboratories based on 206, 6 metre RC composite samples (ASX Announcement 20 July 2011), demonstrated that the magnetite mineralisation at Mt Bevan has the potential to produce a consistent, high quality concentrate with low impurities.

Based on a 75 micron screen (yielding an approximate P80 of 45 – 50 micron) the average weight recovery was 44.63% with an average concentrate grade of 69.8% Fe. Silica content was low (3.28%) together with low levels of sulphur and phosphorus. In particular the silica content compares favourably with other magnetite deposits which typically grade in the range of 4.5 – 6%. Put simply, even with a coarse grind size, a premium concentrate with low silica can be produced.

These preliminary results give rise to the potential for either blast furnace grade pellets (silica < 5.5%) which may be produced at a coarser grind size, or premium DR (Direct Reduction) grade pellets (silica < 3%) at a finer grind size.

Adjacent to Jupiter Mine's Mt Ida Project

Proximity to Jupiter Mine's Iron Ore Deposit

The adjacent Jupiter Mines Mt Ida magnetite resource comprises 530 million tonnes at 31.9% Fe (15% Fe grade cut-off) and hematite Inferred Resources of 5.75 million tonnes at 59.9% Fe at Mt Mason close to the Mt Bevan southern boundary. This mineralisation is known to extend into Legacy's Mt Bevan Iron Ore Project. Jupiter Mines has recently announced that positive scoping study results for Mt Ida (magnetite) and Mt Mason (DSO haematite) resources.

Scoping studies carried out by Promet Engineering were completed on the Mt Ida magnetite and Mt Mason hematite resource delivered financially robust results in both cases. Jupiter Mines commenced Feasibility Study drilling at Mt Mason during May 2011.

The YIOP is set to be the focus of intensive mining and exploration activity in the near term with projects such as Lake Giles (Macarthur Minerals (CVE: MMS) > 1 billion tonnes magnetite resource), Mt Forrest (Mindax Resources (ASX: MDX) > 2.5 billion tonnes conceptual magnetite target), Windarling, Jackson and Deception (Cliffs Natural Resources (NYSE: CLF), Market Cap: US$14.1 billion, > 60 million tonnes hematite Reserves) and Cashmere Downs (Cashmere Iron, 881 million tonnes magnetite Inferred Resource). A combined 250 million tonnes of hematite DSO has already been outlined in the district.

Infrastructure advantages based on location of project area

Infrastructure

The Mt Bevan project area is located close to existing road, rail and port facilities. One of the drivers of ongoing development of iron ore projects within the Central Yilgarn is the accessibility of port facilities at Esperance by local rail.

Development of Mt Bevan would hook into an existing rail line at Menzies, which would need to be upgraded; however, developers understand that infrastructure upgrades, to carry greater ore capacity can be completed at reasonable capital cost.

The rail line runs south to Esperance, the export port for 9 million tonnes of DSO produced by U.S. group Cliffs Natural Resources at the Koolyanobbing operation, 50km south of Southern Cross.

It is believed that the government-owned Esperance port is an expandable hub. From a recent site visit with NMDC representatives, it is understood that the port authority would entertain assistance in the expansion of the port. NMDC has significant experience in the development of large scale projects including port logistics which would assist Legacy.

Aside from the infrastructure advantages with its proximity to Kalgoorlie/Southern Cross and potential to rail ore to either Kwinana (capacity upgrade to 15 – 20 million tonnes per annum) or Esperance, the province is well endowed with hematite and magnetite mineralisation. Cliffs Natural Resources has announced on 20 September 2010 its intention to spend over A$320 million in the district to ramp up production and further develop its resource inventory.

Pilbara Iron Ore Projects

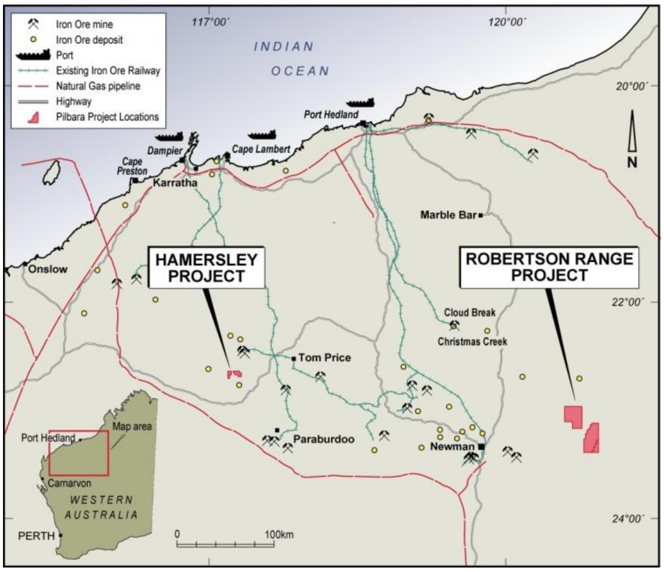


FIGURE 5: Legacy Iron Ore Limited Pilbara iron ore projects (*source:* Legacy Iron Ore Limited website, July 2011).

Robertson Range Projects

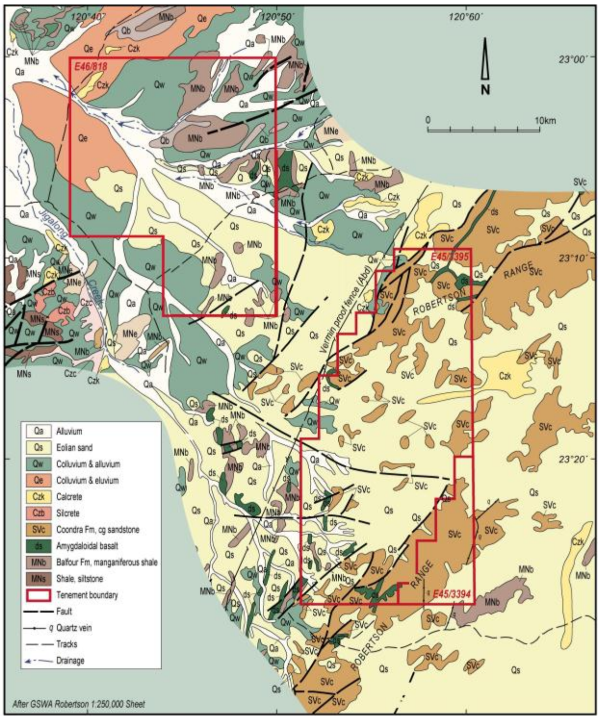


FIGURE 6: Legacy Iron Ore Limited Robertson Range Project (*source:* Legacy Iron Ore Limited website, July 2011).

The Robertson Range Project (Figure 6) lies between 100 - 120km east-northeast of Newman in the East Pilbara region (Western Australia) and consists of three Exploration Licences (E45/3394, E45/3395 and E46/818) covering approximately 800km^2.

The tenements adjoin those of FerrAus (ASX: FRS) and Atlas Iron (ASX: AGO) where recent exploration has outlined total Inferred and Indicated hematite resources of approximately 200 million tonnes.

In addition, E46/818 lies approximately 25km south-south west along strike from the recently commissioned Nicholas Downs manganese mine which contains a total JORC Resources exceeding 15 million tonnes.

Hamersley Project

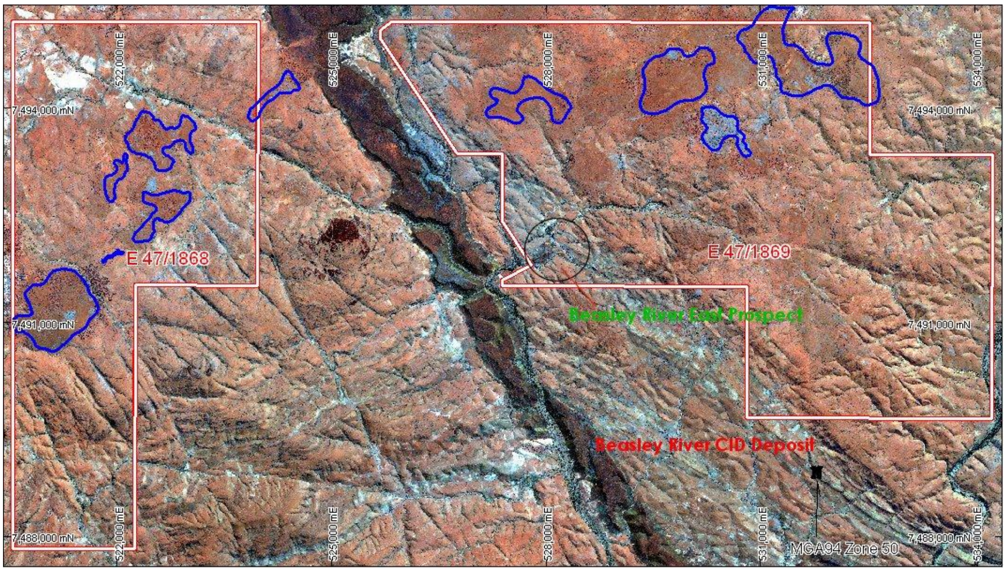


FIGURE 7: Legacy Iron Ore Limited Hamersley Project (*source:* Legacy Iron Ore Limited website, July 2011).

The Hamersley Project (Figure 7) is situated 60km west of Tom Price in the West Pilbara (Western Australia) and consists of E47/1868 and E47/1869 that together cover around 48 km^2. E47/1869 abuts Rio Tinto's Hamersley Iron Beasley River deposit (400 million tonnes iron ore) which is situated on a series of Mesas and ridges that occupy an old drainage line. The potential exists for hematite occurrences under shallow cover which have recently been the subject of intense exploration by adjoining mining companies Murchison Metals (ASX: MMX), who have recently outlined 89 million tonnes at 59.9% CaFe (53.2% Fe at 50% cut-off) and AusQuest (ASX: AQD) who recently sold their Rocklea CID resource (63.1 million tonnes at 60.4% CaFe (53.4% Fe at 50% cut-off) to Dragon Energy (ASX: DLE).

NMDC will look to add additional iron ore projects to build the Company's resources to become a long term supplier...

NMDC is also India's largest iron ore producer

National Mineral Development Corporation MOU

Legacy MOU with NMDC Limited

Legacy has recently executed a memorandum of understanding ("MOU") with National Mineral Development Corporation Limited ("NMDC"); a Government of India fully owned public enterprise. Under the terms of the MOU, (subject to FIRB, shareholder and other regulatory approvals) NMDC has the right to acquire up to 50% of the Company by subscribing for fully paid ordinary shares ("Shares") at an issue price to be mutually agreed based on an independent valuation of Legacy's tenements.

This MOU will provide Legacy with substantial financial resources to explore and develop its exploration portfolio. Both Legacy and NMDC have announced that subject to the execution of a deal, the enlarged Legacy / NMDC group would seek additional iron ore projects sufficient to give a critical size to Legacy's resources and the ability to be a long term supplier.

Upon formal completion, the agreement will provide a unique platform for Legacy to source and secure additional resource projects for development and financing with the backing of NMDC as Legacy's largest shareholder. NMDC has indicated their intention to utilise Legacy as an Australian vehicle to acquire large-scale bulk commodity projects. We would also envisage that the enlarged group would look to acquire other commodities used in the vertical chain of steel making and energy supply, such as coal, nickel and phosphate.

NMDC is controlled by the Ministry of Steel and has total assets of A$3.2 billion as of 30 June 2010. NMDC is involved in exploration for, *inter alia*, copper, phosphate, diamonds and tin in addition to being India's largest Iron ore producer with annual production of around 30 million tonnes of iron ore (62%+ Fe) on the back of total resources in excess of 800 million tonnes.

OTHER PROJECTS

South Laverton Project: The Company holds approximately 560 km^2 of ground along the Keith Kilkenny Tectonic Zone and the southern part of the Laverton Tectonic Zone. These regional structures are none to host a number of major gold mines (including Wallaby, Sunrise Dam and Granny Smith gold), containing in excess of 20 million ounces of gold.

East Kimberley Project: Four tenements in the Halls Creek area cover approximately 1920km^2 and are prospective for gold, base metals, REE and manganese.

PEER COMPARISON

Our iron ore peer comparison includes a handful of Yilgarn explorers/developers set against the average of all ASX listed explorers/developers (Figure 8). **Proactive Investors** considers that the Yilgarn has been harshly dealt with by the market despite relatively easy access to port/roads/rail, particularly in comparison to the Midwest, however we believe this valuation gap will rapidly close once a number of these explorers move closer to development.

FIGURE 8: ASX Listed Yilgarn Iron Ore Explorers and Developers (*source:* Proactive Investors internal modelling).

The average enterprise value/tonne of comparable ASX listed iron ore developers + explorers is approximately A$0.75/tonne iron ore

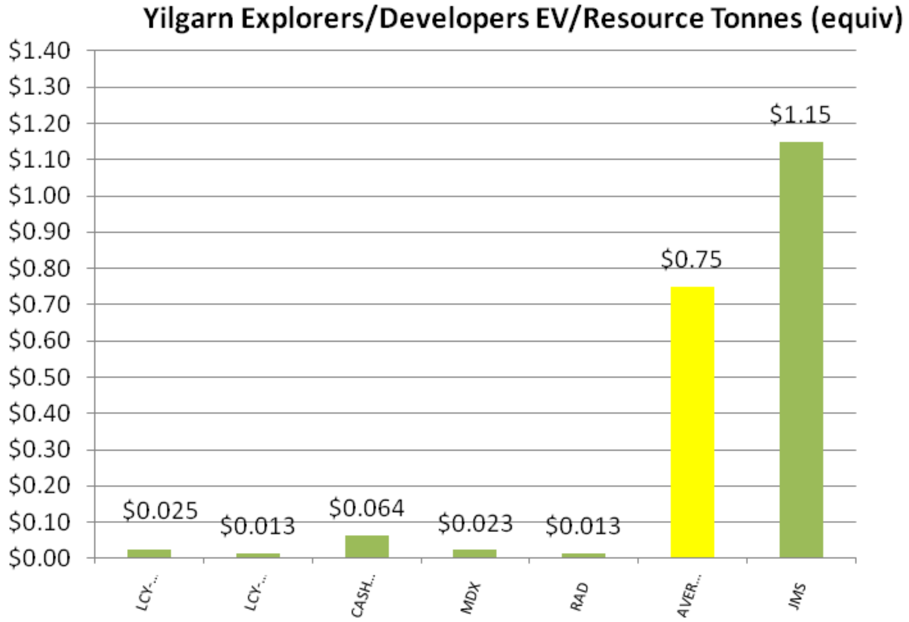


TABLE 2: EV/Tonne of iron ore and total JORC Resources for selected Yilgarn Iron Ore explorers/developers (*source:* Proactive Investors internal modelling).

Company	EV/Tonne Fe equiv ($)	Resource Tonnage (Mt)
Legacy Iron Ore-Current	$0.025	617
Legacy Iron Ore-Upside	$0.013	1,234
Cashmere Downs	$0.064	822
Mindax Limited	$0.023	1,452
Radar Iron Limited	$0.013	700
Expl/Develop/Prod Avg	$0.75	
Jupiter Mines Limited	$1.15	535

The average EV/Tonne JORC Iron Ore resources for Australian listed explorers/developers is approximately A$0.75 (Figure 8, Table 2), whereas predominantly hematite players such as Fortescue Metals (ASX: FMG), Fairstar Resources (ASX: FML) and WPG Resources (ASX: WPG) trade above an EV/Tonne JORC Iron Ore resources of A$2.00 due to the higher value product. When you compare these averages to Legacy at A$0.025 per EV/Tonne, there is clearly some significant potential upside on any market re-rating.

FUNDING

Springtree Convertible Note

In February 2011, Legacy entered into a funding agreement with Springtree Special Opportunities Fund LP of New York which provided Legacy with up to A$7.6 million over two years, with A$150,000 to A$300,000 available each month. The funding was designed to provide project funding for two years and to take Mt Bevan to pre-feasibility study stage, and can be terminated by Legacy at any time subject to a termination fee.

Convertible Note from SpringTree

RISK ANALYSIS

- Mineral exploration remains a high risk business and there is potential for Legacy's upcoming drill programs at Mt Bevan to exceed or fail to live up to the market's expectations
- Any delays in infrastructure (road and rail) and congestion at port facilities (Kwinana, Esperance) have the potential to significant delay production plans
- Declines in iron ore prices from recent record highs have the potential to adversely affect projection valuations
- Delays in attracting a partner to finance the development of Mt Bevan

CATALYSTS

- Completion of the NMDC deal and a cash injection allowing Legacy to be a cashed up acquirer of projects
- Early production of DSO hematite from the Mt Mason area, where Jupiter Mining's Mt Mason resource extends into the joint venture project area
- Calculation of a JORC Inferred Resource for whole strike length that could increase current resources to over 1 billion tonnes by the end of calendar 2011
- Defining additional shallow DSO hematite resources that could allow for early mining
- Positive Scoping Study results on par with or exceeding the findings of Jupiter Mines
- Feasibility study leading to a comparison with other iron ore companies
- Exploration success on its prospective gold, base metal, REE and manganese projects
- Additional projects in iron ore, gold and coal acquired
- Potential for in-specie spin off of one or more projects, as noted in the recent appendix 5 billion, which could significantly add value back to Legacy shareholders. We see possible options including the gold or one of several iron ore projects

CONCLUSION

Legacy's growing magnetite resource at Mt Bevan endowed with low strip ratios, very low silica and low sulphur and phosphorous content with the ability to deliver Blast Furnace or Direct Reduction grade pellets (average concentrate grade of 69.8% Fe), places Mt Bevan at the highest quality level of West Australian magnetite projects.

While resources currently stand just over 600 million tonnes, next phase drilling should enable the calculation of a JORC resource for the whole strike length of the 11km target, likely to be in excess of 1 billion tonnes.

Results to date have enabled Legacy to fast track start of a planned Scoping Study at Mt Bevan to August, which will see it being compared to Jupiter Mines located next door to Mt Bevan, with a market capitalisation of over A$800m. Importantly, the project is located close to road, rail and an existing deep water port, mitigating the need for excessive investment in infrastructure, most notably port facilities.

Whilst Legacy currently has an in-ground per tonne value of A$0.025, any industry average being normally A$0.20 or higher, would make a mockery of the current sub-A$33 million market valuation.

Legacy offers outstanding leverage to our base case model over 2011/2012 of over A$0.45 per share based on peer analysis

On an EV/Resource basis, Legacy is significantly undervalued relative to its peers. Throw in the potentially transformative NMDC transaction, a likely upgrade in resource by the end of calendar 2011, and any additional corporate activities such as an in-specie distribution, and the current undervalued stock price appears to have plenty of short term and long term catalysts for re-rating of Legacy's share price.

Taking a line through neighbouring Jupiter Mines' Mt Ida and Mt Mason valuations, and the mispricing in valuation of Legacy becomes more acute.

While interest from other groups in Legacy beside NMDC cannot be discounted given the presence of Chinese steel mills on the registry, the undervaluation is good news for investors – however at some stage market forces will bring current valuation in line with intrinsic future valuation of Legacy.

Based on the forgoing, and after applying an appropriate discount, could see a Legacy valuation and share price greater than A$0.30 within six months and A$0.40 - A$0.45 within 12 months, if not sooner on the back of the NMDC offer.

Tim is also a director of Cape Lambert Iron Ore

Sharon has extensive commodity experience in both private and public sectors

...more than 15 years experience in foreign trade and investments

DIRECTORS AND MANAGEMENT

Timothy Turner B.Bus, (acc), FTIA, FCPA. **Non-Executive Chairman**

A partner with accountants Hewitt Turner and Gelevits, Timothy Turner specialises in mergers and acquisitions, corporate and tax structuring, due diligence reporting, new ventures and business development consulting. He is also a registered company auditor and a fellow of both CPA Australia and the Taxation Institute of Australia with more than 20 years experience in management and business consultancy. Timothy is currently non-executive director and company secretary of Cape Lambert Iron Ore Ltd and Global Iron Ltd and non-executive director of International Goldfields Ltd. All three companies are listed on the ASX.

Sharon Heng BA (Pol Sc), MBA **Exec Director, CEO**

With a background in commodities trading, international business development and strategic alliance planning, Sharon Heng has more than 12 years experience in joint venture negotiations, resource funding and capital raising. Sharon has extensive knowledge of international commodities markets based on her dealings with government and private sectors in China, right across the oil and gas, energy, infrastructure and mining industries. Currently, she is non-executive director of a resource management and consultation group, along with another Australian exploration company preparing for ASX listing.

Tao Han **Non Exec Director**

Working as a diplomat for China's Ministry of Foreign Trade and Economic Corporation, Hunt Han has more than 15 years experience in foreign trade and investments. He is the vice-general manager of China's Export Base Development Corporation and has an extensive network of corporate clients and government contacts around the world. Currently, Tao is the Managing Director of DT Resources Ltd, producing an annual turnover of A$400 million.

Ben Donovan B.Comm. (Hons) **Company Secretary**

Mr Donovan, is a member of Chartered Secretaries Australia and provides corporate advisory and consultancy services to a number of companies. Mr Donovan is currently a director and company secretary of several ASX listed and public unlisted companies, and has extensive experience in listing rules compliance and corporate governance, having served as a Senior Adviser at the Australian Securities Exchange (ASX) in Perth, including as a member of the ASX JORC Committee. In addition, Mr Donovan has experience in the capital markets having raised capital and assisted numerous companies on achieving a listing on ASX, as well as a period of time as a private client adviser at a boutique stockbroking group.

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