

25 July, 2014

# ASX Announcement

## QUARTER ACTIVITY REPORT

During the June 2014 Quarter, Ferrowest Limited ("Ferrowest" or "the Company") undertook the following activities:

### Yogi Mine Project

Iron ore sample material from the "Sam" deposit at Yogi was prepared and dispatched to China for metallurgical test work by one of China's foremost magnetite processing laboratories during the Quarter. The aim of this testwork programme is to further enhance the existing magnetite beneficiation flow sheet in order to reduce potential capital and operating costs and further improve the overall economics of the Yogi Mine Project.

During the Quarter there were announcements and commentary from a number of parties, including the WA State Premier, pertaining to the development of the proposed Oakajee Port. Development of Oakajee and supporting rail infrastructure would be important to the Yogi Mine Project by providing an export avenue for magnetite iron concentrate (up to 3Mtpa) that would help to optimise the project. The Company believes that a solution may well be identified for the development of Oakajee this year but that it is currently too early to define any specific parameters or timing. In the interim the lack of a deepwater is not an impediment to the Ferrowest projects because merchant pig iron from the proposed Eradu MPI project would be expected through Geraldton Port in any event and at the current time there is more than 3Mtpa of excess capacity at Geraldton Port that could be utilised for iron ore export if required.

### Yalyirimbi Iron Project

The Company is pleased to advise that it continued to field inquiries about project level investment in the Yalyirimbi Iron Project during the Quarter. The key attraction of this project is its potential to produce relatively high grade (63.5%Fe) iron ore fines with very low Alumina and negligible phosphorus.

While low iron ore prices have made advancing a deal in this environment difficult, the ongoing interest shown in this project by potential project level investors bodes well for future opportunities as the iron ore market returns to more normal trading ranges. The Company hopes to secure feasibility study funding in exchange for the product off-take rights.

As advised earlier in the year, Ferrowest is in the process of securing a 51% shareholding in Arafura Iron Pty Ltd ("AIPL") and will nominate two directors for appointment to its Board. AIPL holds the iron rights to the mineral tenement on which the Yalyirimbi Iron Project is located. Ferrowest will be working toward a 60% share of AIPL by completing the feasibility studies on the project. The remaining 40% will be retained by Arafura Resources Limited (ASX Code: ARU), Ferrowest's joint venture partner in this project.

### **Eradu MPI Project**

The Company updated the market during the Quarter on the progress of commissioning of the first full scale ITMk3® plant (the new technology proposed for use in the Eradu MPI Project) by Steel Dynamics Incorporated ("SDI") in Minnesota in the USA. This has proved to be a complex process. SDI, in cooperation with the technology owners Kobi Steel of Japan, appear to have done an excellent job of overcoming a number of 'new technology' issues associated with the plant and have generally reached a production rate around 85% of name plate capacity.

The product quality has been excellent from the start but achieving full production remains an important step in making this technology a world beater. Ferrowest is not privy to the detailed technical issues that remain confidential to SDI and Kobi Steel, however the Company has studied all publicly reported information about the commissioning in detail and has drawn its own conclusion as detailed in the announcement on 2 April 2014.

It is noted that Kobi Steel has announced plans to investigate building a new ITMk3® plant in India, which tends to support the Company's assessment of the situation and Kobi Steel's continued belief in the technology.

### **Corporate**

The most significant issue for Ferrowest during the Quarter remained securing an appropriate and sustained flow of funds to allow it to maintain the Company's operations and advance its mineral projects. This has proved extremely difficult in the last two years, as evidenced by the very low take-up from Company shareholders in the two capital raisings undertaken in 2013.

The market place for exploration companies in the feasibility study stage trying to raise funds is probably as difficult as it has been for more than 20 years. While the Company runs its operations as cost effectively as it can (and the directors have made and continue to make personal financial sacrifices to minimise current expenses) a plan to provide consistent levels of funding that will allow the Company to de-risk its projects and move them toward potential construction financing is essential to sustaining project value and for maintaining Company success.

To achieve this, Ferrowest is seeking direct investment at project level and also announced on 30 April 2014 a Funding Agreement with the Company's major shareholder, TFA International Pty Ltd ("TFA").

### ***Funding Agreement***

The conditional Funding Agreement was executed with TFA, the Australian subsidiary of the Tai Feng Group of Sichuan Province in China. TFA currently holds a 29.17% interest in Ferrowest.

TFA has offered an innovative funding solution by suggesting Ferrowest needs, as a minimum, an income stream to defray some of the operating costs and allow more of the capital raised to be applied directly to the Company's exploration and feasibility study works.

The Company has therefore negotiated a two prong funding strategy with TFA to:

- ◆ provide time to complete project level investment agreements with third parties and/or other capital raising initiatives; and
- ◆ position the Company to better withstand difficult capital market conditions, should they continue, by establishing a cash flow to defray some of the Company's operating costs.

Under the terms of the Funding Agreement the following steps are proposed:

1. TFA will provide six, monthly cash advances of A\$100,000 to be applied to the Company's mineral projects and corporate operations. Subject to shareholder approval, these advances will convert to equity at 1.35 cents per share;
2. Subject to shareholder approval, TFA will convert \$440,000 worth of convertible notes, which it previously acquired, to shares at 2.50 cents per share through the issue of 17,600,000 shares to TFA; and
3. Subject to shareholder approval, TFA will sell a direct interest in the Chinese company **Hubei Taifeng Investment and Development Co., Ltd** ("HTDC") to Ferrowest. HTDC holds a residential and commercial precinct development in Hubei Province in China that is already under construction. Consideration for the acquisition will be the issue of 111,251,158 Ferrowest shares to TFA at 1.8 cents per share (the share price of Ferrowest shares at the time the deal was executed). The HTDC investment is expected to be self funding and no further contribution will be required by Ferrowest.

If approved by shareholders, upon full implementation of this Funding Agreement, TFA would hold up to 60% of the enlarged capital of the Company. As the proposal is both a 'related party transaction' and will result in an effective 'change of control', shareholders will be provided with an independent experts report and other appropriate information on the proposed transaction in the Notice of Meeting for a General Meeting that will be convened to vote on the proposal.

The Board of Directors' believe that the key strategic benefits of the Funding Agreement are:

1. The monthly cash advances provide certainty that the Company can continue to pursue its main business activities of advancing its mineral projects in a period of market conditions that are very difficult;
2. By agreeing to convert its convertible securities at a 38.9% premium to the share price at the time; this premium offsets much of the 25% share price discount provided under the six monthly cash advances and reduces future interest expenses of the Company by \$44,000 per annum. The discount to the current share price for the entire agreement is 7.2% overall, a relatively small discount compared to the cost of commercial equity, if it were available, which would likely range between 20% and 25%;
3. The HTDC investment in China being offered by TFA is anticipated to provide the Company with an innovative source of funding through its first source of income. The funds from the investment are not expected to meet all of the Company's financial requirements but will defray some of the corporate costs, releasing funds for project exploration and feasibility study works; and
4. This further investment in Ferrowest by TFA, representing a 60% holding in the Company, will further cement the business relationship between Ferrowest and the Tai Feng Group and will more strongly align TFA's interests with the successful development of the Company's main business activity of developing its mineral projects.

Ferrowest will establish a wholly owned subsidiary in China to hold the HTDC interest. The balance of the shares in HTDC will be retained by the Tai Feng Group.

The development cost of the precinct, called Taifeng International City is approximately A\$670M, staged over about 6.5 years of construction, with approximately 6 years remaining in the construction phase. Staged construction finance is already in place and construction is underway.

The precinct development is located in Jiayu County, 80km from the provincial capital Wuhan. A new highway is under construction to link Jiayu County to Wuhan. The project is designed to provide residential dwellings for local people and people who will commute to Wuhan for work. It consists of 4 development stages of tower block apartments with a strip mall, a four story shopping centre and an office tower. Stage one has nine residential tower blocks. The first of these is already one third complete and the apartments went on sale on the 7th of April 2014. HTDC will continue to build the properties progressively, selling residential units and other commercial floor space as the development unfolds. Some of the profits from the sales will be applied to the construction of some office space and retail commercial space that HTDC will retain and lease at the end of the development. Other profits distributed will provide the source of funding proposed for Ferrowest.

This funding from the profits of the development will vary up and down during the development depending on the construction demands and sales response. An expected average monthly gross profit will be determined by the Company as part of the due-diligence process and advised to shareholders in the Notice of Meeting but is not expected to exceed \$50,000 per month on average (a maximum 30%pa ROI). At the end of the development in six years time, the SPV will retain office space and retail commercial property that will thereafter generate leasing profits.

The whole site of the development is 21.8Ha in size. The plot ratio is 3.0 and the development floor area is about 1,000,000m<sup>2</sup> with 4,247 underground parking bays. About 746,000m<sup>2</sup> of this will be residential. The whole precinct is expected to be completed by January 2020 (6 years from now). The retained space will be about 100,000m<sup>2</sup> of office space and retail commercial space.

If approved by shareholders and fully implemented, the Funding Agreement would result in an effective change of control, placing TFA in a position to control the future business activities of the Company. In the Notice of Meeting to be prepared for shareholders, TFA will outline in detail its plans for Ferrowest, should it secure a controlling interest in the Company but its advice so far is that it supports the current initiatives of the Company in respect to its mineral projects. Further information in this regard is available in the announcement about the Funding Agreement that was lodged by the Company on 30 April 2014.

During the Quarter the Company undertook due-diligence on HTDC, including a site visit to the precinct development. A Notice of Meeting, an Independent Expert's Report and an Independent Tenement valuation are being finalised.

In addition to shareholder approval, the equity issued under the Funding Agreement is conditional on:

- ◆ TFA Foreign Investment Review Board approval;
- ◆ A successful due-diligence review by Ferrowest of HTDC; and
- ◆ Other Australian and Chinese Government approvals (if required).

TFA International Pty Ltd forwarded the first two \$100,000 loan tranches to Ferrowest by the end of the Quarter in accordance with the terms of the Funding Agreement.

As noted above, the Company's Managing Director, Mr Brett Manning and its Chief Financial Officer and Company Secretary, Mr Daniel Bredenkamp visited the Taifeng International City construction site in China as part of the Company's due-diligence review during the Quarter.

It is a condition of the Funding Agreement that Ferrowest notifies the counterparty to the transaction, TFA, if it is satisfied with its due-diligence inquiries in respect to the proposed investment.

HTDC is a special purpose vehicle established by the parent company of TFA, Sichuan based Tai Feng Group ("Tai Feng") of China. Tai Feng is a diversified company with property development at its core.

The Tai Feng International City development is one of 11 property developments Tai Feng has underway across China at this time.

There has been much recent discussion in the press about falling property prices in China but there was no sign of falling prices at the development, with the sales of the first units, which commenced on 4 April, proceeding as planned (about 80% of the units in the first residential building have been sold) and at the planned prices. The sales office for the development had a steady flow of inquiries during Ferrowest's visit.



***The sales office at the Tai Feng International City – This facility is part of the development and will convert to a club once the development is complete. It is finished to a very high standard.***

The business model for the development is based on providing a balanced mix of residential, commercial and retail, set in a beautiful lake front location, with extensive landscaping and public facilities. Ferrowest visited other Taifeng developments completed previously and noted they were consistently finished to a very high quality standard and to a successful business model. Tai Feng clearly offers a 'life style' choice to its clients, rather than just somewhere to live.

Current construction of new developments in the capital Wuhan and south to the Tai Feng International City in Jia Yu are on a scale not ever seen in Australia and other newly completed developments all appear to be fully habited.



Substantial parts of the lakefront landscaping and public facilities have been completed and are well established and inviting. Construction of the first residential tower is currently over 10 stories of a planned 33. Foundation works are underway on three more residential towers. Land has also been cleared to start on the first section of the retail strip mall. Based on the information reviewed to date in the due-diligence process, management is of the view that the risks associated with this development are substantially the same as for any property development that might be undertaken in Australia.

The following 'artists impression' of the completed development provides some sense of scope, with completion expected in about 6 years time. Ferrowest will receive a return on its investment during the six years of construction to assist in funding its mineral exploration operations here in Australia.



*First residential tower under construction in Jiayu*

Once the development is completed, about 100,000m<sup>2</sup> of commercial, retail and office space will be retained and leased to provide further income into the longer term future. It should be noted that as HTDC will sell the units and commercial space progressively as it is built, the capital cost of buildings under construction at any particular time will be substantially less than the capital cost of the project overall. With the initial construction funding in place, the development becomes effectively self funding through to completion.



On 10 June 2014, TFA received Australian Government Foreign Investment Review Board ("FIRB") approval to increase its shareholding in Ferrowest from 29.1% to 60.0% under the terms of the proposed Funding Agreement.

## **EVENTS SUBSEQUENT**

Subsequent to the end of the Reporting Period, the Company undertook the following activities:

On 21 July 2014, the Company advised that the processes required in order to put the Funding Agreement between Ferrowest and TFA to shareholders for approval are continuing. The Company is awaiting some final information about HTDC. This information is required to complete the due-diligence processes and for the Independent Expert to complete the report for shareholders.

The Company also confirmed that TFA had provided the third A\$100,000 monthly funding tranche in accordance with the terms of the Funding Agreement.

Ferrowest hopes to be in a position to call the shareholder meeting and dispatch the Notice of Meeting in the next few weeks.

The Company believes that the Funding Agreement is providing Ferrowest a more stable base from which to advance its mineral projects in what are extremely challenging times for junior resource companies.

*For further information please contact: Brett Manning – Managing Director +61 8 9277 2600*

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

<b>Ferrowest Limited</b>
--------------------------

ABN

14 074 009 091
----------------

Quarter ended ("current quarter")

30 June 2014
--------------

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(93)	(871)
(b) development	-	-
(c) production	-	-
(d) administration	(114)	(741)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	6
1.5 Interest and other costs of finance paid	(5)	(19)
1.6 Income taxes paid	-	-
1.7 Other (GST recoverable/payable)	2	14
<b>Net Operating Cash Flows</b>	<b>(210)</b>	<b>(1,611)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	14	14
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other – Net bond refunds	-	49
<b>Net investing cash flows</b>	<b>14</b>	<b>63</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(196)</b>	<b>(1,548)</b>

+ See chapter 19 for defined terms.



**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(196)	(1,548)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	180
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	200	719
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (Capital raising costs)	-	-
	<b>Net financing cash flows</b>	200	899
	<b>Net increase (decrease) in cash held</b>	4	(649)
1.20	Cash at beginning of quarter/year to date	30	683
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	34	34

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	49
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

### Financing facilities available

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	600	200
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	170
4.2 Development	-
4.3 Production	-
4.4 Administration	110
<b>Total</b>	<b>280</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	34	30
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter</b> (item 1.22)	<b>34</b>	<b>30</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	Nil			
6.2 Interests in mining tenements acquired or increased	E63/1585	Grant	0%	100%

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

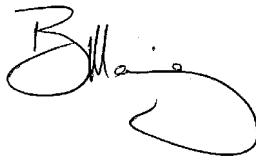
	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	224,819,808	224,819,808		
7.4 Changes during quarter (a) Increases through issues				
7.5 <b>+Convertible debt securities</b> 2 year 10% convertible at 80% VWAP	1,078		\$500.00	\$500.00
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	3,500,000 10,966,351	- 10,966,351	<i>Exercise price</i> \$0.25 \$0.25	<i>Expiry date</i> 19 April 2015 1 September 2014
7.8 Issued during quarter				
7.9 Exercised during quarter	-	-		
7.10 Expired during quarter	-	-		
7.11 <b>Debentures</b> <i>(totals only)</i>	-	-		
7.12 <b>Unsecured notes</b> <i>(totals only)</i>	-	-		

+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Date: 25 July 2014

Print name:       Brett Manning  
                      Managing Director

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

== == == == ==