



ABN 14 074 009 091

29 July 2009

## ASX Announcement

# QUARTERLY ACTIVITY REPORT

## June 2009

During the June 2009 Quarter Ferrowest Limited ("the Company") undertook the following activities:

### **Western Haematite Project**

The Company has continued to negotiate with potential Joint Venture partners interested in funding the exploration and development of the Western Haematite Project ("the WHP") in exchange for a Joint Venture interest.

As advised in the last Quarterly Report, negotiations were ongoing with seven parties with differing proposals and investment objectives. This list has now been reduced to three contenders, with two further interested parties emerging in the last two weeks.

Since the last Quarterly Report, further site/due diligence visits have occurred, together with ongoing negotiations. The most advanced of these negotiations have included the exchange of detailed draft agreements but the proposals remain incomplete and no timetable for a final agreement has been determined.

In the last Quarterly Report the directors set out to more fully explain the potential value of the WHP project by preparing an indicative exploration target analysis based on a range of basic assumptions using a series of possible iron ore prices. Since then the benchmark iron ore prices have been set.

Subsequently the same analysis has been re-run based on the same set of assumptions (that need to be validated through exploration and feasibility studies) but using the new benchmark prices. The results are provided below.

*Please note that any exploration, feasibility study or government approval that results in a significant change in an assumption stated below or a material flaw in the project may result in the actual value being materially less than indicated.*

The following assumptions have been prepared based upon investigations conducted by the Company:

|                    |                     |                      |                          |
|--------------------|---------------------|----------------------|--------------------------|
| Strike Length:     | 2,000m              | Ave. Fe Grade:       | 58%Fe                    |
| Average Width:     | 40m                 | Stripping Ratio:     | 1:1 Ore:Waste            |
| Average Depth:     | 50m                 | Exploration/Studies: | ~\$4.3M                  |
| Average SG:        | 3.2t/m <sup>3</sup> | Capital Cost:        | ~\$9.4M                  |
| Base Case Tonnage: | 12Mt                | Output (Base Case):  | 1.5Mtpa x 8 Years        |
| Up-side Tonnage:   | Up to 60Mt.         | Time to Production:  | 12-24 Months             |
| Lump/Fines Ratio:  | 30:70               | LT Exchange Rate:    | 0.77                     |
| Discount Rate:     | 12%                 | Mining:              | Contract mining/crushing |

*The potential quantity, grade and contaminants of the WHP iron mineralisation is yet to be determined as no drilling has been undertaken. The Company's understanding is conceptual in nature. There is insufficient exploration data currently available to define a Mineral Resource and it is uncertain if additional exploration will result in the determination of a Mineral Resource. The 'exploration target evaluation' is based upon previous exploration results and deposit calculations prepared by Ferrowest Limited.*

Using the base case assumptions above and the new benchmark prices, the Net Present Value of the WHP has been determined using a discounted cash flow model assuming, for this simplified analysis, that both sale price and costs are constant for 8 years of production at 1.5Mtpa.

| Iron ore price              | Net Present Value @ 12% Discount Rate | Value Per Share                   |
|-----------------------------|---------------------------------------|-----------------------------------|
| Bench mark - lump and fines | \$84.2M                               | Between \$0.00 - \$1.21 per share |

This analysis is only intended to provide an 'order of magnitude' potential value of the WHP. From the upper value specified above, shareholders need to discount the price per share by the expectation that the WHP will drill up successfully and that the studies will determine whether it is technically, commercially and financially viable.

It should be noted that whilst 12Mt of mineable iron ore has been selected as the first target, if drilling does delineated suitable ore from the first area there are further similar targets (but with less outcropping) that could provide multiple upside potential.

There are very few potential new DSO projects available in Western Australia that are not already committed to off-take arrangements and this has generated significant competition to be the Company's JV partner on the WHP. The WHP also has the significant advantage that detailed flora surveys have been completed over the project site which have confirmed that there are no known flora or fauna related environmental impediments to exploration and development. The Company has approval to immediately commence a significant exploration drilling programme.

### **The Yalgoo Iron Project**

The progress of construction of the first full scale ITmk3<sup>®</sup> merchant pig iron (MPI) plant in the USA remains on track. This is the preferred technology for the Yalgoo Iron Project, which US steel maker 'Steel Dynamics' anticipates will commence commissioning in this current quarter. Successful commissioning of the multi-million dollar plant in the USA will be a significant milestone for the Yalgoo Iron Project, providing proven technology for the centrepiece of the development.

The MPI market has been recovering as anticipated in the Company's last Quarterly Report and while MPI trading remains somewhat irregular at this point, prices are returning to more normal levels as expected. MPI prices vary across the different markets at the moment from around US\$335 to US\$385 per tonne. The next three to six months should see the MPI market stabilise at a new 'norm'.

As previously advised to the market, the Directors were not keen to seek investment and off-take agreements for the Yalgoo Iron Project (the 'flagship' project for the Company) during the world economic slow down. This would have failed to deliver appropriate rewards to the existing shareholders.

While progress on the project has been delayed over the last year, the Company expects to be able re-open negotiations with interested off-take and investment parties as the global economic situation improves.

### **Corporate**

During the Quarter the Company raised \$198,000 before costs via a Share Purchase Plan.

As an exploration entity exploring and developing two projects, the Company does not have an income stream. The Company has undertaken a series of cost reduction measures since the start of 2009 that have minimised the cost of day to day operations and its current cash reserves are adequate to fund its current objectives. These objectives include securing a funding partner for the exploration and development of the WHP, which the directors believe can be achieved during the current Quarter. A component of this agreement is expected to provide further funds to meet the Company's ongoing cash flow requirements.

The Company confirms that it is in compliance with Listing Rules 3.1 and 12.2 and that based on the range of current discussions with third parties on the WHP and other matters, that it will be able to fund its planned future activities.

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

### **The Yalgoo Iron Project - Outline**

Ferrowest Limited is developing the Yalgoo Iron Project aimed at producing seaborne traded merchant pig iron (96%Fe) from the Yogi magnetite deposit near Yalgoo in the mid west region of Western Australia. Proposed initial production is 1,000,000 tonnes per annum. The plan to process the iron ore to pig iron is premised on the ITmk3<sup>®</sup> technology and excellent existing infrastructure servicing the Project area. The resulting value added merchant pig iron product will be a relatively high margin, high quality, low volume product for export to quality electric arc furnace steel making plants worldwide.

### **The Western Haematite Prospect – Outline**

Ferrowest Limited has identified a potential zone of direct shipping ore (“DSO”) grade haematite at its Yogi iron ore deposit 14 km east of Yalgoo in the mid west of Western Australia. The prospect is to the west of the main magnetite ore body that forms the basis of the Yalgoo Iron Project. Surface rock chip sampling along the Western Haematite Prospect produced an average grade of 57-58% Fe. With a surface expression of 2km in length and with varying widths up to 50m wide it has significant potential as a DSO project.

---

*The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Graeme Johnston, a Fellow of the Geological Society of London.*

*Graeme Johnston is a Director of the Company and a geological consultant to it through Corad Pty Ltd. Graeme Johnston 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 ‘Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’. Graeme Johnston consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.*

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

FERROWEST LIMITED

ABN

14 074 009 091

Quarter ended ("current quarter")

30 June 2009

### Consolidated statement of cash flows

| Cash flows related to operating activities                      | Current quarter<br>\$A | Year to date<br>(12 months)<br>\$A |
|---|------------------------|------------------------------------|
| 1.1 Receipts from product sales and related debtors             | -                      | -                                  |
| 1.2 Payments for (a) exploration and evaluation                 | (7,775)                | (499,506)                          |
| (b) development   | -                      | -                                  |
| (c) production  | -                      | -                                  |
| (d) administration  | (107,676)              | (500,622)                          |
| 1.3 Dividends received  | -                      | -                                  |
| 1.4 Interest and other items of a similar nature received       | 184                    | 4,801                              |
| 1.5 Interest and other costs of finance paid                    | (6,324)                | (32,452)                           |
| 1.6 Income taxes paid   | -                      | -                                  |
| 1.7 Other - GST recoverable                                     | (1,798)                | (11,103)                           |
| <b>Net Operating Cash Flows</b>                                 | <b>(123,389)</b>       | <b>(1,038,882)</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   | -                      | -                                  |
| 1.10 Loans to other entities                                    | -                      | -                                  |
| 1.11 Loans repaid by other entities                             | -                      | -                                  |
| 1.12 Other – Bonds  | -                      | -                                  |
| <b>Net investing cash flows</b>                                 | <b>-</b>               | <b>-</b>                           |
| 1.13 Total operating and investing cash flows (carried forward) | <b>(123,389)</b>       | <b>(1,038,882)</b>                 |

+ See chapter 19 for defined terms.

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

|      |  |           |             |
|------|--|-----------|-------------|
| 1.13 | Total operating and investing cash flows (brought forward) | (123,389) | (1,038,882) |
|      | <b>Cash flows related to financing activities</b>          |           |             |
| 1.14 | Proceeds from issues of shares, options, etc.              | 198,500   | 863,500     |
| 1.15 | Proceeds from sale of forfeited shares                     | -         | -           |
| 1.16 | Proceeds from borrowings                                   | -         | 240,000     |
| 1.17 | Repayment of borrowings                                    | -         | -           |
| 1.18 | Dividends paid   | -         | -           |
| 1.19 | Capital raising costs                                      | -         | -           |
|      | <b>Net financing cash flows</b>                            | 198,500   | 1,103,500   |
|      | <b>Net increase (decrease) in cash held</b>                | 75,111    | 64,618      |
| 1.20 | Cash at beginning of quarter/year to date                  | 67,365    | 77,858      |
| 1.21 | Exchange rate adjustments to item 1.20                     |           |             |
| 1.22 | <b>Cash at end of quarter</b>                              | 142,476   | 142,476     |

**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<br>\$A |
|------|--|------------------------|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | 37,731                 |
| 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<br>\$A | Amount used<br>\$A |
|-----|-----------------------------|-------------------------|--------------------|
| 3.1 | Loan facilities             | -                       | -                  |
| 3.2 | Credit standby arrangements | -                       | -                  |

+ See chapter 19 for defined terms.

**Estimated cash outflows for next quarter**

|              |                            | \$A           |
|--------------|----------------------------|---------------|
| 4.1          | Exploration and evaluation | 50,000        |
| 4.2          | Development                | -             |
| <b>Total</b> |                            | <b>50,000</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<br>\$A | Previous quarter<br>\$A |
|---|--------------------------|------------------------|-------------------------|
| 5.1   | Cash on hand and at bank | 142,476                | 67,365                  |
| 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)  |                          | 142,476                | 67,365                  |

**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 | P59/1656 Relinquished         | 100%                             | 0%                         |
| 6.2 | Interests in mining tenements acquired or increased           |                               |                                  |                            |

+ See chapter 19 for defined terms.

**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><br><i>(description)</i>         |  |  |  |   |
| 7.2 Changes during quarter                                       |  |  |  |   |
| 7.3 <b>+Ordinary securities</b>                                  | 69,451,716   | 69,451,716                               |  |   |
| 7.4 Changes during quarter                                       |  |  |  |   |
| (a) Increases through issues                                     | 2,481,250  | 2,481,250                                | 8  | 8   |
| (b) Decreases through returns of capital, buy-backs              |  |  |  |   |
| 7.5 <b>+Convertible debt securities</b><br><i>(description)</i>  | 1,875,000 #  | -  | \$0.40 face value  | \$0.40 face value   |
| 7.6 Changes during quarter                                       |  |  |  |   |
| (a) Increases through issues                                     |  |  |  |   |
| (b) Decreases through securities matured, converted              |  |  |  |   |
| 7.7 <b>Options</b><br><i>(description and conversion factor)</i> | 3,325,000<br>26,900,561<br>707,500<br>1,875,000<br>1,250,000<br>1,250,000<br>1,250,000 | -<br>26,900,561<br>-<br>-<br>-<br>-<br>- | <i>Exercise price</i><br>\$0.20<br>\$0.25<br>Various<br>\$0.60<br>\$0.47<br>\$0.57<br>\$0.67 | <i>Expiry date</i><br>1 January 2011<br>1 June 2010<br>Various<br>30 June 2010<br>31 January 2011<br>31 January 2011<br>31 January 2011 |
| 7.8 Issued during quarter  |  |  |  |   |
| 7.9 Exercised during quarter                                     |  |  |  |   |
| 7.10 Expired during quarter                                      |  |  |  |   |
| 7.11 <b>Debentures</b><br><i>(totals only)</i>                   |  |  |  |   |
| 7.12 <b>Unsecured notes</b><br><i>(totals only)</i>              |  |  |  |   |

# The principle terms of the Notes are as follows:

|                   |                    |
|-------------------|--------------------|
| Number:           | 1,875,000          |
| Face value:       | \$0.40 per Note    |
| Term:             | 2 years from issue |
| Conversion price: | \$0.40 per share   |
| Interest rate:    | 10%                |

+ 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 4).
- 2 This statement does ~~not~~\* (*delete one*) give a true and fair view of the matters disclosed.



Sign here: ..... Date: 29 July 2009  
(Director)

Print name: Brett Manning

## 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 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting 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.

=====

---

+ See chapter 19 for defined terms.