



30 April, 2014

# ASX Announcement

## Funding Agreement

- ◆ **Major Shareholder, TFA International, steps up to support the Company**
- ◆ **Innovative funding solution to assist progressing Company projects**
- ◆ **Equity funding facility to provide 6 months of baseline funding**
- ◆ **Acquisition of a cash generating investment to provide ongoing funding**
- ◆ **Mineral project developments to remain the main business activity**
- ◆ **Subject to shareholder approval and other regulatory approvals**

Ferrowest Limited ("Ferrowest" or "the Company") is pleased to advise that it has executed a conditional Funding Agreement with the Company's major shareholder TFA International Pty Ltd ("TFA"), the Australian subsidiary of the Tai Feng Group of Sichuan Province in China. TFA currently holds a 29.17% interest in Ferrowest.

As previously advised to the market, the Company has had difficulty raising funds during the last 2 years. In general, junior exploration companies without immediate cash generating opportunities are in a similar situation, increasing competition for the limited funding sources available. While there has been an increased level of interest in direct project level investment in the Company's mineral projects, it is yet to negotiate any substantive investment agreements.

The Company has pursued numerous alternative approaches to securing the funding needed to advance its mineral projects, however, the Board has determined that securing traditional sources of funding in the current market will remain challenging unless equity markets improve significantly in the near term. TFA shares the Board's concern, as well as a belief in the value of Ferrowest's mineral projects and has offered an innovative funding solution.

TFA has suggested that in order to continue to pursue its main business activity of developing its mineral projects, 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. It is only by doing this work to de-risk its projects and complete approval processes ready for development financing that the real value of the Company's mineral assets can be realised.

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 an approximate 21.8% direct interest in a special purpose vehicle ("the SPV investment") holding a well advanced residential and commercial precinct development in Hubei Province in China to a Ferrowest subsidiary, established in China for the purpose. Consideration for the acquisition will be the issue of 111,251,158 shares to TFA at 1.8 cents per share (the current share price of Ferrowest shares). The SPV 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 current share price, 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 SPV 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 SPV 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.

### **The Proposed SPV Investment**

As stated above, subject to shareholder approval, TFA will sell an approximate 21.8% direct interest in a special purpose vehicle ("SPV") that is the owner and developer of a well advanced residential and commercial precinct development in Hubei Province in China. Ferrowest will establish a wholly owned subsidiary in China to hold the SPV interest. The SPV is currently 100% owned by the Tai Feng Group.

The development cost of the precinct 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 no further equity funding will be required to be injected into the SPV itself.

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, shops and office buildings. 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. The SPV 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 the SPV 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 72 (English) acres in size. The plot ratio is 3.0 and the development floor area is about 1,000,000m<sup>2</sup> with under ground 4,247 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.

More details will be provided once the due-diligence process is complete.

### **Effective Change of Control**

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.

In brief, TFA has indicated to the Company that:

- ◆ It supports the current main business activities of the Company in developing its mineral projects, being the Yogi Mine Project (magnetite), the Eradu MPI Project (merchant pig iron), the Yalyirimbi Iron Project (haematite) and the Marvel Loch Project (gold and base metals) and would not seek to alter the current objectives for the development and disposition of these assets;
- ◆ It would expect the Board to continue to seek project level investment directly into the mineral projects and to raise further equity, when possible. Such funds would be applied to further de-risk these projects and advance them towards possible production. If direct project investment meant disposing of a controlling interest in one or more of the projects in order to secure the advancement of that project and/or the portfolio as a whole, this would be considered on its merits. This is consistent with the views and stated objectives of the current Board;
- ◆ TFA would not seek to enlarge the Board, as limiting costs during these difficult times is seen as a priority. TFA has confidence in the current Board of Directors and therefore would not propose any change to the current composition of the Board. In the event that casual vacancies occur, TFA would wish to nominate appropriate replacement candidates for consideration by the Board and shareholders. TFA would expect to work closely with the Company in this regard. It is TFA's preferred view to maintain a majority of independent Directors on the Board of the Company if that is practicable given other management requirements.
- ◆ TFA believes that in order to capitalise on the Company's increased ties with China (through TFA's ownership, the SPV investment by Ferrowest in China and potential Chinese investment at the project level in the Company's mineral projects), Mr Robert Sun, a current director of Ferrowest and the General Manager of TFA, should be appointed as Managing Director of the Company.
- ◆ Also important to TFA's belief in the future of the Company's main business activities centred in Australia, it is TFA's desire that the Company's present Managing Director, Mr Brett Manning, should be appointed as executive Chairman. Mr Manning currently has the greatest understanding of the Company's overall operations and has championed its development, together with the current Board. It is important that he continue to work in an executive capacity to ensure that the Company's key assets in Australia are developed successfully. TFA is aware that having an executive Chairman is not recommended under the ASX Corporate Governance Guidelines but feels that it is more important that Mr Manning hold both an executive position and a position of prominence in the Company at this stage of its development.
- ◆ Reducing costs and establishing early cash flows are important cornerstones to a successful future for the Company in the view of TFA. If it secures effective control, it would propose that TFA and Ferrowest share a joint headquarters in Australia, to share costs and reduce overheads for both companies. This may involve some personnel changes as some of the administrative functions of the two companies are co-located but these would be a matter for the operational management at the time.

## **Other Relevant Matters**

### ***Timetable***

Ferrowest will commission an Independent Expert's Report in preparation for the Notice of Meeting as soon as practical. The aim will be to call a General Meeting of the Company and issue the Notice of Meeting at the earliest practical opportunity. It is hoped that the General Meeting can be held around the end of June 2014. A detailed timetable will be provided to the market when known.

The Company will now also conduct its formal due-diligence processes in respect of the SPV investment before the General Meeting is called and will then be able to make more detailed information available to shareholders in the Notice of Meeting.

### ***Capital Structure***

The proforma capital structure before and after the proposed Funding Agreement is implemented is as follows:

<b>Proforma Capital Structure</b>	<b>Current</b>	<b>After</b>
General Shareholders	159,246,165	159,246,165
TFA's current shareholding as at 30 April 2014	65,573,643	65,573,643
6 x \$100,000 tranches to TFA at 1.35 cents per share		44,444,444
Conversion of \$440,000 existing TFA Convertible Notes at 2.5 cents per share		17,600,000
\$2,002,521 consideration for asset acquisition at 1.8 cents per share		111,251,158
<b>Total Shares on Issue</b>	<b>224,819,808</b>	<b>398,115,410</b>

Note\* This table is prepared on the assumption that no other shares are issued in the interim.

Therefore post implementation of the Funding Agreement in full, TFA would hold 238,869,245 shares which would represent 60% of the shares of the Company on issue.

### ***Other Terms of the Funding Agreement***

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

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

TFA will loan funds to Ferrowest necessary to cover the costs of the Independent Experts Report and the costs associated with the General Meeting.

The Funding Agreement obliges the Company to put the proposal contemplated in it to shareholders promptly unless the Funding Agreement is otherwise legally terminated prior to the General Meeting.

The Funding Agreement terminates if:

1. Shareholders reject the proposal at a General Meeting where it is put to them for consideration;
2. the Australian Foreign Investment Review Board or other Australian or Chinese Government authorities reject any required applications or approvals;
3. Ferrowest, acting reasonably, notifies TFA in writing that it is not satisfied with the results of its due-diligence review in some material respect that cannot reasonably be rectified;
4. TFA fails to provide the six, \$100,000 tranches in accordance with the schedule;
5. all of the equity transactions under the Funding Agreement are completed (completion);
6. 12 months after shareholder approval if not completed (efflux of time); or
7. TFA requests in writing that the Funding Agreement be terminated.

If the Funding Agreement terminates after TFA have provided one or more of the \$100,000 tranches Ferrowest (except in the case of trigger 5 - completion), the Company must repay those tranches and any other loans provided under the Funding Agreement with 5% per annum interest calculated from the date of termination on the following timetable:

- ◆ If terminated under trigger 1, then 3 months after termination;
- ◆ If terminated under triggers 2 or 6, then 6 months after termination; and
- ◆ If terminated under triggers 3, 4 or 7, then 12 months after termination.

Upon termination of the Funding Agreement TFA would lose its rights to complete any equity transaction not completed at the time of termination.

While the Directors, who are not related parties in respect to the proposed transaction, unanimously support the proposal represented by the Funding Agreement at the date of this Announcement, the Funding Agreement specifically allows for any director to change their recommendation to shareholders should they believe a superior alternative offer, capable of acceptance and consideration by shareholders, has been made in the period between the execution date of the Funding Agreement and date of the General Meeting to secure shareholder approval of the Funding Agreement.

#### ***Potential Conflict of Interest***

Mr Robert Sun, as a director of Ferrowest nominated by TFA and its current General Manager, has not participated in Board deliberations by the Company in deciding to accept the proposal and on what terms. Mr Sun has been absent from Board meetings at all times that the proposal was being discussed.

#### ***Tai Feng Group Expertise in Property Development***

The Tai Feng Group has at its core, significant business interests in property development over an extended period of time and has specifically selected the proposed SPV investment for Ferrowest from among its portfolio because of its projected profitability. Tai Feng Group will continue to hold the balance of the residential and commercial precinct development in which Ferrowest will hold an interest, giving the Board confidence in the business plan.

### **Chairman's Comment**

*"In these very difficult times, Ferrowest is fortunate in having a major shareholder that shares the Board's vision for the development of its mineral projects. Like the Board, TFA believes that the Company's projects are undervalued by the market and can and will progress toward production in the right market conditions,"* said Company Chairman, Mr Bryan Hughes. *"Shareholders should know that the Board have made every effort to develop opportunities that protect and grow their investment and the Board is unanimous in its view that, barring a superior offer emerging in the interim, shareholders should endorse this proposal when it is put to them for consideration as the best possible alternative available at this time."*



## ABOUT FERROWEST

Ferrowest is an Australian public company established in 2005 and listed on the Australian Securities Exchange in 2006. Set up to value add to iron ore through the production of merchant pig iron, Ferrowest now boasts exploration and project development activities in magnetite, haematite, gold and nickel.

## IRON

Ferrowest is actively pursuing three major iron related projects:

- **Yogi Iron Project** – proposed magnetite concentrate product at 67%Fe\* ;
- **Eradu MPI Project** – proposed merchant pig iron (MPI) product at 96%Fe\* ; and
- **Yalyirimbi Iron Project** – proposed haematite concentrate product at 63.5%Fe\* .

Each of these projects is detailed below and each plays a strategic role in an innovative business plan that sets Ferrowest apart from other iron ore juniors in the resources sector. The proposed Eradu MPI plant is the centre piece of this plan with the aim to produce high quality merchant pig iron (“MPI”) at a grade of 96%Fe as a dedicated MPI producer to the Asian region. This will differentiate Ferrowest from other producers of iron ore in Western Australia and make it a unique supplier into Asia. MPI is a high value, low volume and high margin product. Most competition in the market for MPI comes from Brazil at double the shipping cost to the big Asian markets of Korea, China and Japan compared to Ferrowest’s proposed exports.

The Yogi Mine Project will provide the long term, consistent supply of high quality magnetite needed to support the MPI manufacturing operations at Eradu for the life of the mine. These two projects, linked by key existing infrastructure will combine to make a very long term strategic business.

The Yalyirimbi Iron Project is expected to also play a key role in the development of the Company’s iron plans by providing a relatively low capital cost, cash generating business that can be brought into operation relatively quickly. Yalyirimbi will play a critical role in transforming the Company from explorer to producer ahead of the construction of the Yogi Iron Project and the Eradu MPI Project, whilst also meeting some of the ongoing costs of operations across the Company.

Ferrowest also holds early stage exploration projects for iron south east of Cue and adjacent to the Jack Hills mine, which will continue to be explored.

## GOLD & BASE METALS

Under a commodity diversity strategy implemented by the Company in late 2012, Ferrowest secured a 100% owned subsidiary called Urban Minerals Pty Ltd (“Urban”) with a portfolio of tenements near Marvel Loch on the Southern Cross Greenstone belt that are prospective for gold, nickel and other base metals. Other projects are being added to Urban’s portfolio, such as Lake Halbert East (on the Albany Fraser Orogen) and at Camel Back, 50Km south east of Leonora.



## PROJECT OUTLINES

### The Yogi Mine Project – Outline

The Yogi Mine Project proposes the development of a magnetite mining and concentration operation at the Yogi iron deposit near Yalgoo in the mid west region of Western Australia. The proposed product will be magnetite concentrate at 67%Fe. Some concentrate would be exported through the new proposed Port of Oakajee with the remainder planned to supply the Eradu MPI Project (detailed below). If Oakajee Port is delayed, Ferrowest can stage the Yogi Mine Project to match the demand from the Eradu MPI Project, which is not dependent on Oakajee Port for export.

The current magnetite Inferred Mineral Resource estimate at Yogi, classified and reported in accordance with the JORC Code (2004), is 572.5 million tonnes at 27.5%Fe.

### The Eradu MPI Project - Outline

The Eradu MPI Project envisages the production of seaborne traded merchant pig iron (“MPI”) at 96%Fe using magnetite concentrate from the Yogi Mine Project. The plan is to process the magnetite concentrate into pig iron at Eradu, 60Km east of Geraldton using ITmk3® technology and the excellent existing infrastructure servicing the project.

MPI sells for around 4 times the value of iron ore fines, with a higher margin than bulk iron ore. The MPI also sells into a niche market that has seen less investment on dedicated production capacity than the iron ore industry. Unlike iron ore, MPI can be stored outside, won’t create dust and with preferred shipment sizes ranging up to 55,000 tonnes, MPI is perfect for export through the existing Port of Geraldton.

### Yalyirimbi Iron Project

The Yalyirimbi Iron Project is located in the Northern Territory on a 787Km<sup>2</sup> exploration licence and has a combined Indicated and Inferred Mineral Resource of 13.3 million tonnes of haematite at 27.1%Fe, classified and reported in accordance with the JORC Code (2004).

The current Resource is located in two zones totalling 1.5Km in length, out of a 30 to 40Km long formation that is yet to be explored. Test work carried out at Yalyirimbi demonstrated that with a crush to 100% passing 6mm and gravity upgrading, a haematite fines concentrate of 63.5%Fe with 7.1% SiO<sub>2</sub>, 0.84% Al<sub>2</sub>O<sub>3</sub> and negligible P can be produced.

The Project envisages open cut mining of the haematite, before crushing and gravity based upgrading to produce a haematite fines concentrate. The haematite will be transported via the existing railway to Darwin Port for export.

### The Marvel Loch Project

The Marvel Loch Project consists of 12 granted tenements, considered to be highly prospective for gold and base metals. The project has a combined area of 156Km<sup>2</sup> and is located close to the historic Marvel Loch mining area, 31Km south of Southern Cross in Western Australia. The Southern Cross greenstone belt has been the source of extensive gold and nickel exploration and production, hosting approximately 150 known significant gold occurrences.

## Forward Looking Statements

*Except in respect of matters of fact, the statements included in this announcement, including statements concerning the future plans and intentions of Ferrowest are forward-looking statements. Forward-looking statements use words such as ‘ expects’, ‘plans’, ‘may’, ‘could’, ‘believes’, ‘estimates’ or ‘intends’ and other words concerning uncertain matter. These statements are based on present knowledge and circumstances and often include or are based on certain assumptions about future events that are reasonable at the date of this announcement. Such forward-looking statements are not guarantees of future performance and involve future circumstances, many of which are beyond the control of the company, its directors and officers. Actual results may differ materially from the results expressed or anticipated in the forward looking statements. The company cannot and does not warrant any particular results, events or performance, whether expressed or implied by the forward-looking statements contained in this announcement. Investors should not rely in isolation on any particular forward-looking statements. Except where required by law or the ASX Listing Rules, Ferrowest does not undertake to update or revise forward-looking statements.*

## Exploration Results

Exploration results are based on standard industry practices including sampling, assay methods and appropriate quality control systems. Drillhole density for specific JORC reporting categories are based on a statistical analysis of the distribution of the iron mineralisation. The sampling of Reverse Circulation (RC) samples are collected as either single splits or 2 metre composite samples depending on the uniformity of mineralisation encountered. Core samples are sampled to geological boundaries with cored holes being twinned next to RC holes to check geological interpretation and also to provide sample material for Specific Gravity testwork. The quality of RC samples is optimised by the use of riffle and or cone splitters, dust collectors, logging of various criteria designed to record sample size, recovery and contamination and the use of field duplicates, blank samples and certified reference materials to measure sample representivity and reproducibility. In the case of ferrous metals and deleterious elements, the assays are prepared with a lithium borate fusion digest and X-ray fluorescence (XRF) finish. Sample preparation is undertaken at ALS in Alice Springs with the analyses being completed by ALS in Perth. The quality of analytical results is monitored by the use of internal laboratory procedures and standards together with certified standards, duplicates and blanks and statistical analysis where appropriate to ensure that results are representative and within acceptable ranges of accuracy and precision.

## Competent Persons Statement

The information in this report that relates to Exploration Results and general geological commentary, including any Exploration Target estimates, is compiled by Graeme Johnston (please refer to details below).

The information in this report that relates to Mineral Resources or Ore Reserves (JORC 2004) at Yogi is based on information compiled by Graeme Johnston and Malcolm Titley (please refer to details below).

The Information in this report that relates to Mineral Resources or Ore Reserves (JORC 2004) at Yalyirambi is based on information compiled by Grant Louw (please refer to details below).

**Graeme Johnston** is a Director of the Company, a geological consultant to it through Corad Pty Ltd and a Fellow of the Geological Society of London. Graeme Johnston has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration, and to the activity he is undertaking, to qualify as a RPO and a Competent Person in terms of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code 2004 Edition). 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.

**Malcolm Titley (MAusIMM)** is a Director and Principal Consultant of CSA Global and a Member of the Australasian Institute of Mining & Metallurgy. Malcolm Titley has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration, and to the activity he is undertaking, to qualify as a Competent Person in terms of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code 2004 Edition). Malcolm Titley consents to the inclusion of such information in this report in the form and context in which it appears.

**Grant Louw** is a Consultant for CSA Global and a Member of the Australian Institute of Geoscientists. Grant Louw has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration, and to the activity he is undertaking, to qualify as a Competent Person in terms of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code 2004 Edition). Grant Louw consents to the inclusion of such information in this report in the form and context in which it appears. Grant Louw takes responsibility for the mineral resource estimate only

Ferrowest confirms that it is not aware of any new information or data that materially affects the information included in this report. In regards to estimates of mineral resources, all material assumptions and technical parameters underpinning the estimates in the previous ASX announcements referred to in this report continue to apply and have not materially changed..