



30 April, 2014

# ASX Announcement

## QUARTER ACTIVITY REPORT

During the March 2014 Quarter, Ferrowest Limited (“Ferrowest” or “the Company”) undertook the following activities:

### **Yalyirimbi Iron Project**

During the Quarter the Company fielded interest from three separate companies that are interested in the potential product off-take rights for the Yalyirimbi Iron Project. The Company hopes to secure feasibility study funding in exchange for the product off-take rights. Discussions remain preliminary at this stage but term sheets were sent to selected parties during the reporting period.

The necessary paperwork is underway for Ferrowest to secure a 51% shareholding in Arafura Iron Pty Ltd (“AIPL”) and 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.

### **Yogi Mine Project**

As part of the Company’s ongoing strategy to seek project level investment in the Yogi Mine Project, as previously advised to the market, four companies undertook due-diligence reviews of the Yogi Mine Project data during the Quarter. Ferrowest discussed possible investment in the Yogi Mine Project on a potential earn-in joint venture basis during the Quarter with two parties. Discussions remained very preliminary in nature but the Company will keep the market informed of any developments in this area.

During the Quarter the Company obtained a bulk sample of banded iron from the Dan’s Knob tenement E59/1348, at the southern end of the Yogi Mine Project tenement package. This area is yet to be drilled but the bulk sample was taken for metallurgical testwork to determine the amenity of the weathered banded iron stones in this area to upgrading.

A Prospecting Licence, 59/2028, was granted at Yogi adjacent to the proposed “Bugs” pit site during the Quarter, which will potentially also provide room for project infrastructure.

### **Corporate**

On 8 January 2014, the Company advised that it had issued 9,000,000 ordinary shares at the current market price of 2 cents per share to raise \$180,000 for working capital purposes.

On 18 February 2014, the Company advised that it had raised \$200,000 for working capital purposes through the issue of 1,428,572 ordinary shares at the current market price of 1.4 cents per share and the issue of 400 Convertible Notes. The Convertible Notes were issued from the Shortfall Convertible Notes of the capital raising by way of the Short Form Prospectus dated 29 October 2013.

Securing an appropriate and sustained flow of funds for the Company's operations advancing its mineral projects remained the most significant issue facing Ferrowest during the Quarter. 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.

Ferrowest's strategy is to seek direct investment at project level while also considering all possible proposals for debt or equity funding. The Company saw renewed interest in both the Yogi Mine Project and the Yalirimbi Iron Project during the Quarter and is working hard to capitalise on the opportunities that these projects represent.

At the end of the Quarter, the Company's cash reserves are minimal. To address this issue, the Company has entered into a Funding Agreement since the end of the Quarter. This agreement is described in the 'Events Subsequent' section below.

Also during the Quarter, the Company surrendered exploration licences E09/1853 at Jack Hills and E20/744 to the south east of Cue as part of a strategy to focus on the core projects within the Company's tenement portfolio.

## **EVENTS SUBSEQUENT**

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

### **Eradu MPI Project**

On 2 April 2014, the Company updated the market on the progress of commissioning of the first full scale ITMk3<sup>®</sup> 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<sup>®</sup> plant in India, which tends to support the Company's assessment of the situation and Kobi Steel's continued belief in the technology.

The Company had always intended to be a 'first mover' on the technology as soon as it was proven at full scale. Therefore the Company will continue to watch progress of the technology at Minnesota and elsewhere in the world. Once the Company reaches a point for the Eradu MPI Project where a technology decision needs to be finalised, it will review the current state of the ITMk3<sup>®</sup> technology at that time in comparison to other available technologies and make the appropriate decision for the project.

### **Yogi Mine Project**

The Company noted with interest that on and after 11 April 2014 there were announcements and commentary from a number of parties, including the 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. It is noted that while all commentary reported was generally positive, there were contradictory statements and therefore the Company advises shareholders that it 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.

### **Corporate**

#### ***Funding Agreement***

On 30 April 2014, the Ferrowest advised the market that it had entered into 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.

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 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.

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

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.

Ferrowest is commissioning an Independent Expert's Report in preparation for the Notice of Meeting and will aim to call a General Meeting of the Company 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.

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).

*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>
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ABN

14 074 009 091
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Quarter ended ("current quarter")

31 March 2014
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### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (9 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(212)	(778)
(b) development	-	-
(c) production	-	-
(d) administration	(154)	(627)
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	(2)	(14)
1.6 Income taxes paid	-	-
1.7 Other (GST recoverable/payable)	12	12
<b>Net Operating Cash Flows</b>	<b>(356)</b>	<b>(1,401)</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 – Net bond refunds	-	49
<b>Net investing cash flows</b>	<b>-</b>	<b>49</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(356)</b>	<b>(1,352)</b>

+ See chapter 19 for defined terms.

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

1.13	Total operating and investing cash flows (brought forward)	(356)	(1,352)
	<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	180	519
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (Capital raising costs)	-	-
	<b>Net financing cash flows</b>	180	699
	<b>Net increase (decrease) in cash held</b>	(176)	(653)
1.20	Cash at beginning of quarter/year to date	206	683
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	30	30

**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	92
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

+ See chapter 19 for defined terms.

### 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	-	-
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	120
<b>Total</b>	<b>290</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	30	206
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>30</b>	<b>206</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	E09/1853	Surrendered	100%	0%
	E20/744	Surrendered	100%	0%
6.2 Interests in mining tenements acquired or increased	P59/2028	Granted	0%	100%

+ 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.*

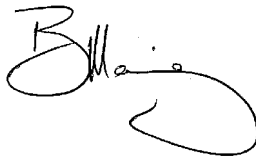
	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	224,819,808	224,819,808		
7.4 Changes during quarter (a) Increases through issues	1,428,572 9,000,000	1,428,572 9,000,000	1.4 2.0	1.4 2.0
7.5 <b>+Convertible debt securities</b> 2 year 10% convertible at 80% VWAP	1,078		\$500	\$500
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	400		\$500	\$500
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: 30 April 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.

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