



2 June, 2014

# ASX Announcement

## Funding Agreement Update

### Proposed Funding Agreement

Ferrowest Limited ("Ferrowest" or "the Company") advises that the Company's Managing Director, Mr Brett Manning and its Chief Financial Officer and Company Secretary, Mr Daniel Bredenkamp have recently returned from a due-diligence visit to China in connection with the proposed Funding Agreement announced to the market on 30 April 2014.

It is a condition of the Funding Agreement that Ferrowest notifies the counterparty to the transaction, TFA International Pty Ltd (TFA), if it is satisfied with its due-diligence inquires in respect to the proposed investment by Ferrowest in the Chinese company **Hubei Taifeng Investment and Development Co., Ltd.** ("HTDC"). Subject to various conditions previously advised to the market, Ferrowest would acquire a 21.8% interest in HTDC through the issue of 111,251,158 Ferrowest shares to TFA at a total value of A\$2,002,520.

It is expected that the investment would then provide ongoing funding for Ferrowest's main business activities in Australia, being mineral exploration. Importantly HTDC is not expected to require any further equity or funding from Ferrowest to conduct its business going forward.

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. HTDC is undertaking the development of a residential and commercial precinct in Jia Yu, just south of Wuhan, the capital of the Hubei province. The development is called the Taifeng International City.

The due-diligence visit by Ferrowest is part of a process whereby the Board of the Company will assess the suitability of the investment and advise shareholders of its findings. This process is expected to be completed in time for inclusion in the Notice of Meeting to be sent to shareholders for the vote on whether to proceed with the Funding Agreement. The information will also assist the Independent Expert in the preparation of a report for shareholders that will also be included in the Notice of Meeting. The Board will be required to notify TFA once it is satisfied with its due-diligence investigations. This process is expected to be complete in the next few weeks.

While the Company's due-diligence investigations remain ongoing and further information is to be assessed before any decision and recommendation can be made by the Board, it is considered appropriate to advise that Ferrowest management believes that the development has an excellent business case based on the information and observations available so far.

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.



*First residential tower under construction*

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. 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.



To provide some comparison of scope and scale of the development, Taifeng International City is compared to the currently underway Elizabeth Quays foreshore development in Perth.

<b>Criteria</b>	<b>Elizabeth Quays</b>	<b>Tai Feng International City</b>
Capital Cost	A\$2.6B	A\$670M
Development Area (Total)	10Ha	21Ha
Residential Units	800 (87,000m <sup>2</sup> )	6,500 (750,000m <sup>2</sup> )
Commercial/retail floors space	225,000m <sup>2</sup>	200,000m <sup>2</sup>
State Population	2.5 million (WA)	60.0 million (Hubei)
Capital City Population	2.0 million (Perth)	10.0 million (Wuhan)
Population Density – Capital City	310 persons/Km <sup>2</sup> (Perth)	1,200 persons/Km <sup>2</sup> (Wuhan)
Population Density – State	0.95 persons/Km <sup>2</sup> (WA)	324 persons/Km <sup>2</sup> (Hubei)

Further information will be made available to the market once the due-diligence review is completed in the coming weeks.

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



## **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..