FERROWEST
LIMITED

Ferrowest Limited

(ABN 14 074 009 091)

Half Year Report

31 December 2006

Contents

DIRECTORS' REPORT

Your directors submit the financial report of Ferrowest Limited ("the Company") for the half year ended 31 December 2006. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of directors who held office during or since the end of the half year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Robert H Duffin	Chairman
Brett L Manning	Managing Director
Barry E Wyatt	Non-Executive Director
Philip J Evers	Non-Executive Director
Graeme G Johnston	Executive Director

Review of Operations

Ferrowest Limited quoted on the Australian Stock Exchange on 31 July 2006 (Code: FWL) after having issued 20,000,000 shares to the public and 8,700,000 shares to Comet Resources Limited on 28 July 2006 under the terms of its Prospectus dated 15 May 2006 ("the Prospectus"). A total of $4,000,000 was raised before costs under the Prospectus and the Company also secured 100% of the ferrous mineral rights to the Yogi iron mineralisation 14km east of Yalgoo through the issue of the shares mentioned above to Comet Resources Limited.

The Company established a new head office, secured key staff and established the necessary operating systems for the implementation of the Company's business plan.

Work commenced on the Scoping Study for the Yalgoo Iron Project in August 2006, which was successfully completed on schedule by the end of December 2006. As part of the Scoping Study, the Company also undertook the following activities:

- A ground magnetics programme was undertaken at Yogi covering the banded iron formations on the mineral tenements – E59/642, P59/1508 and P59/1397. The results of this work were used to produce geophysical models that have assisted in the planning of the exploration drilling.
- Two flora surveys (a preliminary and a spring survey) were completed, as was a fauna survey covering the Company's immediate areas of exploration. No declared rare flora or endangered species were identified in the project area.
- A heritage survey was undertaken at Yogi over the following mineral tenements – E59/642, P59/1508 and P59/1397.
- Exploration drilling commenced at Yogi with two drilling rigs completing 3021 metres of RC reconnaissance drilling for a total of 19 drill holes on E59/642 by the end of December 2006. Drilling confirmed the continuity of the iron mineralisation along strike with all holes intersecting magnetite bearing banded ironstones and good correlation of actual results with the modelled results derived from the geophysical surveys and modelling mentioned above.

Key findings of the Scoping Study for the Yalgoo Iron Project were;

- No fatal flaws have been identified and no unusual project issues were identified that would delay the normal government approval process;
- Project economics remain robust despite capital and natural gas cost increases caused by the resources boom;
- Four possible merchant pig iron production technologies have been identified; and
- The international market for merchant pig iron, the Project's proposed output, remains strong.

The Company entered into a Sale & Purchase Agreement with Prosperity Resources Limited to acquire the mineral tenements over which the Company held ferrous mineral rights. This acquisition provided greater legal certainty that will improve the 'bankability' of the Yalgoo Iron Project and will facilitate project financing at a later date. The tenements and tenement applications acquired were:

E59/642	MLA59/634	MLA59/635	MLA59/636	MLA59/637
E59/1097	P59/1508	P59/1397	P59/1656	MLA59/525

The Company appointed Mr Daniel Bredenkamp (the Company's CFO) as a Company Secretary of the Company. Mr Neville Bassett also remains a Company Secretary of the Company.

In events subsequent to the end of the reporting period the Company:

- Completed the Stage 1 reconnaissance drilling at Yogi with a total of 4,932 metres of RC drilling conducted over 31 holes;
- Completed the Stage 2 infill drilling programme at Yogi commenced;
- Completed the Pre-feasibility Study for the Yalgoo Iron Project is underway;
- Mr Neville Bassett resigned as a Company Secretary of the Company but continues to provide corporate advice in the capacity of independent consultant.

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the Company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 3 and forms part of this directors' report for the half-year ended 31 December 2006.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306(3) of the Corporations Act 2001.

Brett L Manning

Managing Director

Dated this 14th day of March 2007.

HLB Mann Judd
Chartered Accountants

Auditor's Independence Declaration

As lead auditor for the review of the financial report of Ferrowest Limited for the half year ended 31 December 2006, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Ferrowest Limited.

Perth, Western Australia
14 March 2007

N G Neill
Partner, HLB Mann Judd

HLB Mann Judd (WA Partnership)

15 Rheola Street West Perth 6005. PO Box 263 West Perth 6872 Western Australia. DX 238 (Perth) Telephone +61 (08) 9481 0977. Fax +61 (08) 9481 3686.

Email: hlb@hlbwa.com.au. Website: http://www.hlb.com.au

Partners: Ian H Barsden, Terry M Blenkinsop, Litsa Christodulou, Wayne M Clark, Lucio Di Giallonardo, Colin D Emmott, Trevor G Hoddy, Norman G Neill, Peter J Speechley

CONDENSED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	Notes	31 Dec 2006 $	30 June 2006 $
Revenue		**98,680**	**2,576**
Salaries and Employee benefits expense		(155,753)	(143,885)
Depreciation and amortisation expense		(12,839)	(2,702)
Exploration and Tenement expenditure		(113,362)	(3,871)
Corporate and Administration costs		(149,285)	(101,883)
Loss before income tax expense	2	**(332,559)**	**(249,765)**
Income tax expense		-	-
Loss after tax from continuing operations		**(332,559)**	**(249,765)**
Loss after tax from discontinued operation		-	-
Net loss for the period		**(332,559)**	**(249,765)**
Basic earnings per share (cents per share)		**(0.7)**	**(1.8)**

The accompanying notes form part of these financial statements

CONDENSED BALANCE SHEET
AS AT 31 DECEMBER 2006

	Notes	31 Dec 2006 $	30 June 2006 $
Assets			
Current Assets			
Cash and cash equivalents		2,854,793	178,653
Other receivable		209,165	-
Other assets		84	130,275
Total Current Assets		3,064,042	308,928
Non-Current Assets			
Other financial assets		47,917	-
Property, plant and equipment		142,047	65,094
Deferred exploration expenditure	3	2,191,575	137,702
Total Non-Current Assets		2,381,539	202,796
Total Assets		5,445,581	511,724
Liabilities			
Current Liabilities			
Trade and other payables		72,891	115,221
Total Current Liabilities		72,891	115,221
Total Liabilities		72,891	115,221
Net Assets		5,372,690	396,503
Equity			
Issued capital	4	5,927,166	618,420
Option Reserve		28,263	28,263
Retained earnings		(582,739)	(250,180)
Total Equity		5,372,690	396,503

The accompanying notes form part of these financial statements

CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	Note	Issued Capital	Retained Earnings	Other Reserves	Total
		$	$	$	$
Balance at 1 July 2005		120	(415)	-	(295)
Shares issued during the period		618,300	-	-	618,300
Cost of share based payment		-	-	28,263	28,263
Net loss for period		-	(249,765)	-	(249,765)
Balance at 30 June 2006		618,420	(250,180)	28,263	396,503
Balance at 1 July 2006		618,420	(250,180)	28,263	396,503
Shares issued during the half year		5,308,746	-	-	5,308,746
Net loss for period		-	(332,559)	-	(332,559)
Balance at 31 December 2006		5,927,166	(582,739)	28,263	5,372,690

The accompanying notes form part of these financial statements

CONDENSED CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	Note	31 Dec 2006 $	30 June 2006 $
		Inflows/(Outflows)	
Cash flows from operating activities			
Payments to suppliers and employees		(334,550)	(185,061)
Interest received		98,680	2,576
GST recoverable		(174,000)	-
Net cash (used in) operating activities		(409,870)	(182,485)
Cash flows from investing activities			
Purchase of non-current assets		(119,792)	(37,797)
Payment for acquisition of tenements		(80,708)	-
Payments for exploration expenditure		(328,236)	(125,153)
Payment of bonds		(47,917)	-
Net cash (used in) investing activities		(576,653)	(162,950)
Cash flows from financing activities			
Proceeds from issue of shares		4,000,000	618,300
Share issue costs		(337,337)	(93,917)
Repayment of borrowings		-	(2,550)
Net cash provided by financing activities		3,662,663	521,833
Net increase/(decrease) in cash held and cash equivalents		2,676,140	176,398
Cash and cash equivalents at 1 July 2006		178,653	2,255
Cash at 31 December 2006		2,854,793	178,653

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

The half-year report has been prepared on a historical cost basis, except for land and buildings, derivative financial instruments and available-for-sale financial assets which are measured at fair value. Cost is based on the fair value of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2006 and any public announcements made by Ferrowest Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the group as in the full financial report.

For the purpose of preparing the half-year report, the half-year has been treated as a discrete reporting period.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2006 annual financial report for the financial year ended 30 June 2006.

In the half-year ended 31 December 2006, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2006.

It has been determined by the Company that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to the Company's accounting policies.

NOTE 2: LOSS BEFORE INCOME TAX EXPENSE

	31 December 2006 $	30 June 2006 $
The following revenue and expense items are relevant in explaining the financial performance for the half-year:		
(a) Revenue		
Interest received – other corporations	98,680	2,576

NOTE 3: DEFERRED EXPLORATION EXPENDITURE

Costs carried forward in respect of areas of interest in the following phases:		
Exploration and evaluation phase – at cost		
Balance at beginning of period	137,702	-
Tenement acquisition	1,856,583	100,000
Expenditure incurred	197,290	37,702
Total deferred exploration expenditure	2,191,575	137,702

The ultimate recoupment of the mining tenements, exploration and evaluation expenditure carried forward is dependent on the successful development and commercial exploitation and/or sale of the relevant areas of interest, at amounts at least equal to book value.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2006

NOTE 4: ISSUED CAPITAL

	Consolidated	
	31 December 2006 $	30 June 2006 $
Ordinary shares		
Issued and fully paid	5,927,166	618,420

	No.	$
Movements in ordinary shares on issue		
At 1 July 2006	25,300,000	618,420
Issue on 28 July 2006 for acquisition of mining tenement	8,700,000	1,740,000
Issue on 28 July 2006 for cash pursuant to public offer	20,000,000	4,000,000
Transaction costs	-	(431,254)
At 31 December 2006	54,000,000	5,927,166

NOTE 5: FINANCIAL REPORTING BY SEGMENTS

During the financial year the Company operated principally in one business segment (for primary reporting) being mineral exploration, and one geographical segment (for secondary reporting) being Australia. This is consistent with the prior year.

NOTE 6: EVENTS SUBSEQUENT TO REPORTING DATE

After reporting date, the Company:

- Completed the Stage 1 reconnaissance drilling at Yogi with a total of 4,932 metres of RC drilling conducted over 31 holes;
- Completed the Stage 2 infill drilling programme at Yogi commenced;
- Completed the Pre-feasibility Study for the Yalgoo Iron Project is underway; and
- Mr Neville Bassett resigned as a Company Secretary of the Company but continues to provide corporate advice in the capacity of independent consultant.

There are no other matters or circumstances that have arisen since 31 December 2006 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial years.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes thereto, as set out on page 4 to page 9:
   a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
   b. give a true and fair view of the entity's financial position as at 31 December 2006 and of its performance for the half-year then ended.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporations Act 2001.

Brett L Manning
Managing Director

Dated this 14th day of March 2007

HLB Mann Judd
Chartered Accountants

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of
Ferrowest Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report, which comprises the condensed balance sheet as at 31 December 2006, the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration, of Ferrowest Limited for the half-year ended 31 December 2006.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001,* including giving a true and fair view of the company's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Ferrowest Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* has been provided to the directors of Ferrowest Limited on 14 March 2007.

HLB Mann Judd (WA Partnership)

15 Rheola Street West Perth 6005. PO Box 263 West Perth 6872 Western Australia. DX 238 (Perth) Telephone +61 (08) 9481 0977. Fax +61 (08) 9481 3686.

Email: hlb@hlbwa.com.au. Website: http://www.hlb.com.au

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HLB Mann Judd (WA Partnership) is a member of HLB International and the HLB Mann Judd National Association of independent accounting firms

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Ferrowest Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position at 31 December 2006 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

N G NEILL
Partner

Perth, Western Australia
14 March 2007