



ABN 14 074 009 091

30 January, 2012

ASX Announcement

QUARTERLY ACTIVITY REPORT

December 2011

During the December 2011 Quarter Ferrowest Limited ("Ferrowest" or "the Company") undertook the following activities:

INVESTMENT AGREEMENT WITH TFA INTERNATIONAL PTY LTD

The implementation of the Investment Agreement with TFA International Pty Ltd (100% owned subsidiary of Sichuan Taifeng Group of China) ("Taifeng") signed in September 2011 ("the Investment Agreement") achieved a number of significant milestones during the Quarter. These included:

- On 24 November 2011 the Company announced that it had secured the Third Party Approval that was required as a condition of the Investment Agreement.

When Ferrowest first acquired the core of the Yogi tenement package from Prosperity Resources Limited and its subsidiary Prosperity Resources (Yalgoo) Pty Ltd (collectively "Prosperity") in 2006, Prosperity retained the non-ferrous mineral rights to the relevant tenements and a small ferrous mineral royalty right over some of the tenement areas (but not including the main iron ore strike known at the time).

The third party approval required under the Investment Agreement was finalised with the execution of a Deed of Assumption and Assignment between Ferrowest, Taifeng and Prosperity under which Prosperity agreed to the assignment of 67% of the rights and responsibilities in respect to the relevant tenements at Yogi to Taifeng once they had completed their sole funding of the \$20 million earn-in expenditure and secured their joint venture rights.

In addition to completing the requirements of obtaining the third party approval, the agreement includes the sale of the non-ferrous mineral rights at Yogi back to Ferrowest and Taifeng in the proportion of their future intended joint venture interests. The consideration that was paid to Prosperity for this return of the non-ferrous mineral right was:

- 33.3% of the non-ferrous mineral rights to Ferrowest for \$15,000 worth of Ferrowest shares at market price; and
- 66.7% of the non-ferrous mineral rights to Taifeng for \$30,000 in cash.

This resulted in Prosperity's only remaining interest in some area of the Yogi tenements being the ferrous mineral royalty.

- On 28 November 2011 the Company announced that Taifeng had secured Foreign Investment Review Board ("FIRB") approval that was required as a condition of the Investment Agreement.
- On 16 December 2011, the Company announced that it had received \$1,000,000 of the first \$2,800,000 equity tranche under the Investment Agreement and issued the 5,000,000 shares at 20 cents per share to TFA International Pty Ltd on 19 December 2011. These shares are subject to a 12 month voluntary escrow agreement.
- Subsequent to the end of the Quarter, on 13 January 2011, the Company announced that it had received a further \$1,000,000 of the first \$2,800,000 equity tranche under the Investment Agreement and issued a further 5,000,000 shares at 20 cents per share to TFA International Pty Ltd. These shares are also subject to a 12 month voluntary escrow agreement. At the date of this Report, the remaining \$800,000 equity to complete the first tranche is expected in February 2012.

Under the terms of the Investment Agreement Taifeng will subscribe for:

- Tranche 1 – 14,000,000 shares at 20 cents per share to raise \$2.8M
- Tranche 2 – 10,000,000 shares at 20 cents per share to raise \$2.0M

Taifeng will also earn a 66.7% joint venture ("JV") interest in the Yogi Mine Project by sole funding \$20M in exploration and studies. Under the terms of the Investment Agreement, the scale of the proposed magnetite mining and concentration operations at Yogi will be tripled to 4.5Mtpa and Ferrowest will also retain 100% of the Eradu MPI Project.

The Tranche 2 share placement and the \$20M in project funding is subject to Chinese Government Approval. Taifeng has made an application for this approval.

Coincident with the issue of the \$2M second tranche of 10,000,000 shares, Ferrowest will issue 18,000,000 free options to Taifeng. These options will be unlisted and have an exercise price of A\$0.24 per option.

NEW EXPLORATION LICENCES GRANTED

On 19 December 2011 the Company was granted three new Exploration Licences in the Mid West of Western Australia in the New Forest area to the north of the Tallering Peak iron ore mine operated by Mt Gibson Iron Limited.

These tenements do not form part of the Investment Agreement with Taifeng. They are prospective for magnetite iron ore and cover some 27,000Ha.

SUBSEQUENT EVENTS – EXPLORATION AT YOGI

On 19 January 2012, subsequent to the end of the Quarter, exploration drilling commenced at Yogi. Once Chinese Government approval of the Investment Agreement (as previously announced) is achieved in the coming few months, drilling activities at Yogi will be scaled up as the first of Taifeng's \$20M in project funding becomes available. In addition to the drilling, the Company is preparing to expand facilities at Yogi to cope with the much higher rate of exploration activity that will follow in the first half of 2012.

There will be three strategic objectives that will be undertaken concurrently through exploration drilling at Yogi. Each of these is important and each will be given the appropriate resources.

1. Exploration drilling for potential direct shipping grade iron ore ("DSO") at Yogi, initially to the west of the 'Sam' deposit;
2. In-fill drilling on the 460Mt 'Sam' portion of the Inferred Resource to raise the classification toward 'Indicated' and 'Measured', which, subject to satisfactory drilling and feasibility study work, will lead to 'Proven' and 'Probable' Reserves later in 2012.
3. Resource drilling at the 'Tweety' target with the aim of establishing a maiden Resource at Tweety that will increase the Yogi magnetite Resource inventory towards the anticipated 0.8Bt to 1.2Bt target potential[#].

The Company sees the identification of possible DSO that could lead to early mining (and therefore early cash flow) and the finalisation of the bankable feasibility studies for the Yogi Mine Project and the Eradu MPI Project as equally important objectives. It is also essential that both the Yogi Mine Project and the Eradu MPI Project are advanced on the same timeline.

CORPORATE

General Meeting

On 3 October 2011, the Company called a General Meeting to be held on 2 November 2011 in response to a requisition pursuant to section 249D of the *Corporations Act 2001* to consider resolutions which would alter the membership of the Board. Shareholders rejected all resolutions at the General Meeting held on 2 November 2011.

Annual General Meeting

The Annual General Meeting of the Company was held on 14 November 2011 and all resolutions put to shareholders were carried.

Share Purchase Plan

On 17 October 2011, the Company announced a Share Purchase Plan for existing shareholders to raise \$300,000 through the issue of up to 6,000,000 shares. The SPP closed over subscribed and the 6,000,000 were issued on 20 November 2011.

Share Purchase and Convertible Security Agreement

During the Quarter the following share placements were made under the Share Purchase and Convertible Security Agreement with the SpringTree Special Opportunities Fund L.P. (SpringTree) announced to the market on 20 June 2011:

- 10 October 2011: 897,666 shares to convert \$50,000 of the \$250,000 Convertible Security (Balance following conversion \$200,000);
- 19 October 2011: 1,117,318 shares to raise \$60,000; and
- 12 December 2011; 1,204,819 shares to convert \$50,000 of the \$200,000 Convertible Security (Balance following conversion \$150,000).

Subsequent to the end of the reporting period, the Company and SpringTree agreed to terminate the Share Purchase and Convertible Security Agreement. SpringTree also converted the remaining \$150,000 of Convertible Security in January 2012.

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

The Yogi Mine Project - Outline

The Yogi Mine Project proposes the development of a magnetite mining and concentration operation coupled with exploration of potential direct shipping ore ("DSO") grade haematite at the Yogi iron deposit near Yalgoo in the mid west region of Western Australia. Proposed production of magnetite concentrate will target 4,500,000 tonnes per annum ("tpa") at 67%Fe. 3,000,000tpa would be exported through the new proposed Port of Oakajee with the other 1,500,000tpa planned to supply the Eradu Pig Iron Project (detailed below).

Exploration of potential haematite DSO targets will be a high priority for the Yogi Mine Project with the current concept, subject to satisfactory exploration, study results and government approvals, envisaging conceptual mine production of around 1.5Mtpa. The DSO would be transported by road train to Geraldton for export to China. The relatively simple open cut mine scenario and existing road train approved transport corridor over a relatively short trucking distance direct to the existing port provide an excellent basis for rapid development where exploration is successful.

The current magnetite Inferred Resource estimate at Yogi classified and reported in accordance with the JORC Code is 572 million tonnes at 27.5%Fe with target magnetite potential[#] at Yogi estimated at between 0.8 and 1.2 billion tonnes.

Mineral Resource Estimate	Million Tonnes (Mt)	Fe%	SiO ₂ %	Al ₂ O ₃ %	P%	LOI%
Inferred (Fresh)	500.0	27.68	48.19	5.40	0.06	0.08
Inferred (Transitional)*	72.5	26.28	45.38	5.59	0.05	1.39
Inferred Total	572.5	27.51	47.84	5.42	0.06	0.25

Notes: Tonnages rounded to nearest 10,000 tonnes. Cut-off Grade 23.0% total Fe. Surficial oxide material is not reported as part of the mineral resource estimate.

*Transitional material is partially oxidised but magnetite-bearing.

The target potential is conceptual in nature as insufficient data exists to define a Mineral Resource and it is uncertain if further exploration will result in further Mineral Resource. The target potential is based upon calculations prepared by Ferrowest Limited with reference to current experience at Yogi and available data.

The Eradu MPI Project - Outline

Ferrowest Limited is developing the Eradu MPI Project aimed at producing seaborne traded merchant pig iron ("MPI") at 96%Fe using magnetite concentrate 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 magnetite concentrate to pig iron at Eradu, 60Km east of Geraldton is premised on the ITmk3[®] 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 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 and Malcolm Titley, a Member of the Australasian Institute of Mining & Metallurgy.

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.

Malcolm Titley (MAusIMM) is a Director and Principal Consultant of CSA Global and is responsible for the estimation of the Mineral Resource for the Yogi deposit. Malcolm Titley 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. Malcolm Titley 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 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

Ferrowest Limited

ABN

14 074 009 091

Quarter ended ("current quarter")

31 December 2011

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (6 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	20	(208)
(b) development	-	-
(c) production	-	-
(d) administration	(304)	(555)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	2	5
1.5 Interest and other costs of finance paid	(15)	(31)
1.6 Income taxes paid	-	-
1.7 Other (GST recoverable/payable)	19	20
Net Operating Cash Flows	(278)	(769)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	(1)
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 investing cash flows	-	(1)
1.13 Total operating and investing cash flows (carried forward)	(278)	(770)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(278)	(770)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	1,300	1,480
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(60)	(60)
1.18	Dividends paid	-	-
1.19	Other (Capital raising costs)	-	-
	Net financing cash flows	1,240	1,420
	Net increase (decrease) in cash held	962	650
1.20	Cash at beginning of quarter/year to date	252	564
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	1,214	1,214

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	133
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Item 1.2 (a) – During the quarter the company received a recoup of past exploration expenditure of \$102,000.

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

During the quarter, 2,102,485 ordinary fully paid shares were issued on the conversion of convertible notes with a face value of \$100,000.

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	600
4.2 Development	-
4.3 Production	-
4.4 Administration	225
Total	825

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	1,214	252
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	1,214	252

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	Nil			
6.2 Interests in mining tenements acquired or increased	E59/1754	Exploration Licence	0%	100%
	E59/1755	Exploration Licence	0%	100%
	E59/1756	Exploration Licence	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 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	114,762,395	114,762,395		
7.4 Changes during quarter (a) Increases through issues				
	897,666	897,666	5.57	5.57
	1,117,318	1,117,318	5.37	5.37
	6,000,000	6,000,000	5.00	5.00
	304,260	304,260	4.93	4.93
	1,204,819	1,202,819	4.15	4.15
	5,000,000	5,000,000	20.00	20.00
7.5 +Convertible debt securities <i>(description)</i>	1	1	\$150,000 face value	\$150,000 face value
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
	26,891,560	26,891,560	\$0.25	28 June 2012
	3,325,000	-	\$0.20	1 January 2012
	76,500	-	\$0.21	Various
	1,500,000	-	\$0.1967	21 December 2013
7.8 Issued during quarter	-	-		
7.9 Exercised during quarter	-	-		
7.10 Expired during quarter	(87,000)	-	Various	Various
7.11 Debentures <i>(totals only)</i>	-	-		
7.12 Unsecured notes <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 January 2012

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 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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