



Ferrowest Limited

(ABN 14 074 009 091)

Half Year Report

31 December 2008

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DIRECTORS' REPORT

Your directors submit the financial report of Ferrowest Limited ("the Company") for the half year ended 31 December 2008. 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

The Western Haematite Prospect

On 8 July 2008 the Company announced the discovery of a new haematite direct shipping iron ore prospect to be known as the Western Haematite Project ("the WHP").

The WHP is a potential zone of direct shipping ore ("DSO") grade haematite at the Company's Yogi iron ore deposit 14 km east of Yalgoo in the mid west region of Western Australia.

The prospect is located to the west of the main magnetite ore body that forms the basis of the Yalgoo Iron Project. With a surface expression of 2km in length and with varying surface widths up to 50m wide, it has significant potential as a stand alone DSO project.

The surface expression of the haematite has been rock chip sampled and the results are provided below.

Surface rock chip sampling results from the Western Haematite Prospect

Sample #	Easting	Northing	Fe %	Sample #	Easting	Northing	Fe %
130029	481527	6872827	59.56	130051	481223	6873669	55.24
130043	481278	6873525	45.27	130052	481166	6873751	58.82
130044	481479	6872832	59.3	130053	481134	6873954	57.63
130045	481500	6872925	55.75	130054	480759	6875088	44.11
130046	481409	6873029	50.27	130055	480795	6875376	53.03
130047	481359	6873210	57.51	130056	480868	6874814	55.73
130048	481282	6873337	57.65	130057	480900	6874559	52.95
130049	481266	6873437	57.66	130058	480976	6874438	61.51
130050	481205	6873601	52.1	130059	481021	6874286	55.36

The Company wishes to maintain its primary focus on the Yalgoo Iron Project and therefore the Board is considering possible joint venture arrangements with a number of parties that have expressed an interest in financing the exploration and development of the WHP in exchange for an interest in the project. The Board feels that this will be the best way to secure the funding to rapidly evaluate the DSO potential of this prospect.

A spring flora survey was completed during the reporting period over the prospective area of the Western Haematite Project and no impediments to the proposed exploration were identified. Approval was also received from the Department of Minerals & Petroleum for the 'Programme of Work' required to initiate a significant drilling programme.

The Yalgoo Iron Project

The Board has resolved to complete the Definitive Engineering Study ("DES") for the Yalgoo Iron Project ("the Project") for a base case of 1 million tonnes per annum of merchant pig iron ("MPI") production. This is double the initial proposal but is expected to result in significant further capital and operating cost savings per tonne of MPI.

Doubling the production is expected to increase the total project capital cost from A\$437m to around A\$700m but will reduce the capital cost burden per annual tonne of production by 20%.

Operating cost savings will be quantified as part of the DES but are expected to be derived from more efficient economies of scale at the mine and beneficiation plant and lower management overheads per tonne of MPI.

The Company had previously advised that it expected to complete a significant resource upgrade during the reporting period but the remaining drilling required to complete this resource upgrade was deferred due to the current economic circumstances. This drilling is expected to be undertaken during 2009 and a revised a JORC resource estimate can now be expected later in the year.

During the reporting period the Company advanced negotiations with the first cornerstone product off-take and investment partners being two foreign companies ("the Cornerstone Investors") it hopes to secure to assist the development of the Project. Both Cornerstone Investors are substantial corporations of long standing. The Company expects to secure the funding it needs to complete the feasibility studies for the Project from these arrangements.

The detail of the agreements will be announced upon execution but the key terms are:

- The Cornerstone Investors shall have the right, following completion of the DES, to enter into a 50:50 joint venture with Ferrowest for the development and operation of the Project.
- The Cornerstone Investors will advance A\$12.5 million funding to complete the DES upon signing the agreements.

It was planned for the agreements with the Cornerstone Investors to have been signed in early December but on 12 December 2008 the Cornerstone Investors requested an extension of time before signing the agreements.

On 23 December 2008 the Company received further correspondence from the Cornerstone Investors to the effect that:

- They renewed their commitment to enter the agreements;
- They advised the financing plans to supply funds to advance the Project studies had been disrupted by the global financial crisis; and
- They were working toward securing the funding needed as soon as possible.

The draft documentation for the agreements has been finalised and is ready for execution, subject to successful financing by the Cornerstone Investors.

In addition to MPI end users (steel mills), the Company held productive discussions with a few major traders of MPI during the reporting period. These large international organisations are also looking at ways to support the Project now in exchange for the rights to trade some of the MPI on the Company's behalf. These sort of arrangements would allow the Company to access the MPI spot market sales worldwide and is likely to form part of the final product off-take mix. These discussions remain ongoing.

On 28 October 2008, the Board also advised the market that the financial turmoil would delay the completion of the Bankable Feasibility Study for the Project to 2010 and the schedule for first operations until 2012.

The Board remains confident about the prospects of the Project. Like the iron ore spot price, the price of MPI has fallen as demand has eased but the Company has always assumed that this would occur at some time prior to the Project commencing operations in 2012 and the Project's financial modelling was structured accordingly.

One issue that will impact the future prospects of the Project is the availability of funds that will be necessary for construction. These funds will not be sought until after the completion of the Bankable Feasibility Study in the second half of 2010 and it is clearly too early to say what the capital markets may look like at that time and what types of finance might be available. However, the Company remains firmly of the view that its business plan to target the MPI market provides a critical point of difference from other projects and that the prospects of being a competitive MPI supplier located in the Asian region will make the Project a compelling business case for financing.

Corporate Matters

The terms of the Convertible Note raising that had been announced during the previous reporting period were altered during this reporting period to ensure the terms remained competitive in the worsening market conditions. The following additional incentives apply to all convertible note issued under the raising:

- 1 free option was issued with each convertible note. The options have an exercise price of 60 cents and expiry date of 30 June 2010; and
- Coupon interest, payable under the convertible notes, will, at the noteholder's option, be payable to the noteholder in cash or in shares issued at a 15% discount to the VWAP of Ferrowest shares when the interest falls due.

A further \$240,000 dollars was raised under the Convertible Note raising during the reporting period and subsequently the directors closed the Convertible Note raising, having raised a total of \$750,000 before costs.

On 14 July 2008 the Company announced that 19,550,000 shares were released from escrow.

On 5 September 2008 the Company announced that it had completed a placement of 2,208,333 ordinary fully paid shares to raise an amount of \$265,000 before costs that was applied to the Yalgoo Iron Project and other working capital expenditure.

The Company also issued 127,500 options to an employee under the terms of the Ferrowest Limited Incentive Option Scheme approved by shareholders at the AGM on 28 November 2007.

On 30 September 2008 the Company released its Annual Report to Shareholders.

On 5 November 2008 the Company announced that it had reached agreement for the placement of 2,000,000 ordinary fully paid shares at \$0.10 per share to raise an amount of \$200,000 for working capital.

On 25 November 2008 the Company held its Annual General Meeting. All resolutions put to the meeting were passed on a show of hands.

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 4 and forms part of this directors' report for the half-year ended 31 December 2008.

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 13th day of March 2009.



Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Ferrowest Limited for the half-year ended 31 December 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) any applicable code of professional conduct in relation to the review.

This declaration is in respect of Ferrowest Limited.

A handwritten signature in blue ink, appearing to read 'Norman G. Neill'.

Perth, Western Australia
13 March 2009

N G NEILL
Partner, HLB Mann Judd

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

Level 2 15 Rheola Street West Perth 6005 PO Box 263 West Perth 6872 Western Australia. 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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**CONDENSED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

	Notes	31 Dec 2008 \$	31 Dec 2007 \$
Revenue		542	43,327
Salaries and employee benefits expense		(545,774)	(223,174)
Depreciation and amortisation expense		(55,126)	(27,716)
Interest and finance costs		(34,873)	-
Exploration and tenement expenditure		(195,045)	(252,079)
Corporate and administration costs		(210,900)	(334,861)
Loss before income tax expense	2	(1,041,176)	(794,503)
Income tax expense		-	-
Net loss for the period		(1,041,176)	(794,503)
Basic loss per share (cents per share)		(1.71)	(1.4)

The accompanying notes form part of these financial statements

**CONDENSED BALANCE SHEET
AS AT 31 DECEMBER 2008**

	Notes	31 Dec 2008 \$	30 June 2008 \$
Assets			
Current Assets			
Cash and cash equivalents		90,305	77,858
Other assets		87,105	125,168
Total Current Assets		<u>177,410</u>	<u>203,026</u>
Non-Current Assets			
Property, plant and equipment		320,046	374,996
Deferred exploration expenditure	3	6,355,699	6,214,398
Total Non-Current Assets		<u>6,675,745</u>	<u>6,589,394</u>
Total Assets		<u>6,853,155</u>	<u>6,792,420</u>
Liabilities			
Current Liabilities			
Trade and other payables		470,477	377,632
Total Current Liabilities		<u>470,477</u>	<u>377,632</u>
Non-Current Liabilities			
Borrowings		641,525	443,259
Total Non-Current Liabilities		<u>641,525</u>	<u>443,259</u>
Total Liabilities		<u>1,112,002</u>	<u>820,891</u>
Net Assets		<u>5,741,153</u>	<u>5,971,529</u>
Equity			
Issued capital	4	8,613,426	8,148,426
Reserves		1,483,224	1,137,423
Accumulated Losses		(4,355,497)	(3,314,320)
Total Equity		<u>5,741,153</u>	<u>5,971,529</u>

The accompanying notes form part of these financial statements

**CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

	Issued Capital	Accumulated Losses	Other Reserves	Total
	\$	\$	\$	\$
Balance at 1 July 2007	5,927,166	(1,300,990)	1,016,179	5,642,355
Shares issued during the half year	2,101,859	-	-	2,101,859
Transaction costs	(140,140)	-	-	(140,140)
Net loss for period	-	(794,503)	-	(794,503)
Balance at 31 December 2007	<u>7,888,885</u>	<u>(2,095,493)</u>	<u>1,016,179</u>	<u>6,809,571</u>
Balance at 1 July 2008	8,148,426	(3,314,321)	1,137,423	5,971,529
Shares issued during the half year	465,000	-	304,067	769,067
Convertible Note – equity portion	-	-	41,734	41,734
Net loss for period	-	(1,041,176)	-	(1,041,176)
Balance at 31 December 2008	<u>8,613,426</u>	<u>(4,355,497)</u>	<u>1,483,224</u>	<u>5,741,153</u>

The accompanying notes form part of these financial statements

**CONDENSED CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

	31 Dec 2008	31 Dec 2007
	\$	\$
	Inflows/(Outflows)	
Cash flows from operating activities		
Payments to suppliers and employees	(273,719)	(483,567)
Interest received	542	43,327
Interest paid and finance costs	(25,374)	-
GST recoverable	(1,380)	50,335
Net cash (used in) operating activities	<u>(299,931)</u>	<u>(389,905)</u>
Cash flows from investing activities		
Purchase of non-current assets	(176)	(72,831)
Payments for exploration expenditure	(392,446)	(932,239)
Payment of bonds	-	(46,000)
Net cash (used in) investing activities	<u>(392,622)</u>	<u>(1,051,070)</u>
Cash flows from financing activities		
Proceeds from issue of shares	465,000	2,026,859
Proceeds from borrowings	240,000	-
Share issue costs	-	(50,050)
Net cash provided by financing activities	<u>705,000</u>	<u>1,976,809</u>
Net increase in cash held and cash equivalents	12,447	535,834
Cash and cash equivalents at 1 July 2008	77,858	1,542,563
Cash at 31 December 2008	<u>90,305</u>	<u>2,078,397</u>

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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, Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

This condensed 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.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2008 and any public announcements made by Ferrowest Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

Basis of preparation

The half-year report has been prepared on a historical cost basis. Cost is based on the fair value of the consideration given in exchange for assets. The company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

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

Going concern

Notwithstanding the fact that the company has a working capital deficit of \$293,067, the directors are of the opinion that the company is a going concern for the following reasons:

- Subsequent to year end the Company raised \$200,000 of equity capital via an issue of ordinary shares at \$0.05 per share. The funds raised will be used to meet the ongoing working capital requirements of the Company. The directors also anticipate that further equity raising will be required and will be completed in 2009;
- The draft agreements with the Cornerstone Investors detailed in the Director's Report above remain ready for execution once the Cornerstone Investors have secured the necessary financing. If executed, these agreement will provide the funding basis to complete the studies into the Yalgoo Iron Project;
- There has been considerable interest in the Western Haematite Project and discussions in relation to possible joint venturing and funding of exploration and development of this project are underway. The directors are of the opinion that an agreement in respect of this prospect is highly likely during the first half of 2009 and that such an agreement will positively contribute the ongoing operations of the Company.; and
- The facility for placement of securities under the existing \$5,000,000 Equity Line of Credit facility with YA Global Investment LP (of which \$4,910,000 remains undrawn as at 12 March 2009).

Should future equity raisings and/or the other agreements mentioned above not be completed, there is significant uncertainty as to whether the company will be able to continue as a going concern and to realise its assets (in particular its deferred exploration expenditure) and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2008, 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 2008.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2008

NOTE 2: LOSS BEFORE INCOME TAX EXPENSE

	31 Dec 2008	31 Dec 2007
	\$	\$
The following revenue and expense items are relevant in explaining the financial performance for the half-year:		
(a) Revenue		
Interest received	542	43,327

NOTE 3: DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	31 Dec 2008	30 Jun 2008
	\$	\$
Costs carried forward in respect of areas of interest in the following phases:		
Exploration and evaluation phase – at cost		
Balance at beginning of period	6,214,398	4,019,686
Expenditure incurred	336,346	2,883,749
Expenditure written off during period	(195,045)	(689,037)
Total deferred exploration expenditure	<u>6,355,699</u>	<u>6,214,398</u>

The recoupment of the costs carried forward in relation to areas of interest in the exploration and evaluation phase are dependent on the successful development and commercial exploitation or sale of the respective areas.

NOTE 4: ISSUED CAPITAL

	Consolidated	
	31 Dec 2008	30 June 2008
	\$	\$
<i>Ordinary shares</i>		
Issued and fully paid	<u>8,613,426</u>	<u>8,148,426</u>
	No.	\$
<i>Movements in ordinary shares on issue</i>		
At 1 July 2008	58,703,990	8,148,426
Issue on 5 September 2008 for cash pursuant to a private placement	2,208,333	265,000
Issue on 5 November 2008 for cash pursuant to a private placement	2,000,000	200,000
At 31 December 2008	<u>62,912,323</u>	<u>8,613,426</u>

NOTE 5: SEGMENTS REPORTING

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2008****NOTE 6: CONTINGENT LIABILITIES**

There has been no change in contingent liabilities since the last annual reporting date.

NOTE 7: EVENTS SUBSEQUENT TO REPORTING DATE

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

On 5 February 2009 that it had placed 4,000,000 ordinary shares at \$0.05 per share to raise \$200,000 before costs for working capital.

On 11 February 2009 announced the ongoing progress on the first ITmk3® merchant pig iron plant at Steel Dynamics in the USA. The Company plans to use the ITmk3® technology in the Yalgoo Iron Project. The Steel Dynamics plant is on schedule to commission in the third quarter of 2009.

There are no other matters or circumstances that have arisen since 31 December 2008 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 5 to page 11:
 - 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 2008 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 13th day of March 2009



Accountants | Business and Financial Advisers

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 2008, the condensed income statement, condensed statement of changes in equity, condensed cash flow statement and notes to the financial statements for the half-year ended on that date, and the directors' declaration, of Ferrowest Limited ("Company")

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 Interim and Other Financial Reports 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 2008 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 13 March 2009.

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
Level 2 15 Rheola Street West Perth 6005 PO Box 263 West Perth 6872 Western Australia. Telephone +61 (08) 9481 0977. Fax +61 (08) 9481 3686.
Email: hlb@hibwa.com.au. Website: <http://www.hlb.com.au>

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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 company's financial position at 31 December 2008 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.

Continuation as a Going Concern

Without qualifying our conclusion, we draw attention to Note 1 to the financial report which indicates that the Company will be required to raise additional equity or secure other funding. If the Company is unable to source future equity raising and/or conclude the other agreements as detailed in note 1, there is significant uncertainty whether the company will continue as a going concern and, therefore, whether it will realise its assets (in particular its deferred exploration expenditure) and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.



HLB MANN JUDD
Chartered Accountants



Perth, Western Australia
13 March 2009

N G NEILL
Partner, HLB Mann Judd