ASX Announcement

FERROWEST LIMITED

ASX Code: **FWL**

30 January 2009

QUARTERLY ACTIVITY REPORT

DECEMBER 2008

During the December 2008 Quarter the Ferrowest Limited ("the Company") undertook the following:

The Yalgoo Iron Project

During the Quarter the Company advanced negotiations with the first cornerstone product off-take and investment partners, two foreign companies ("the Cornerstone Investors") it hopes to secure to assist the development of the Yalgoo Iron Project ("the Project").

The Company updated the market on these negotiations during the Quarter on 15 October, 28 October, 19 November, 12 December and 23 December 2008.

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 Definitive Engineering Study ("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.

Both Cornerstone Investors are substantial corporations of long standing.

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.

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 as previously advised to the market, the Company has always assumed that this would occur at some time prior to the Project commencing operations in 2012.

Clearly 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 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.

During the Quarter the Company advanced discussions with other potential cornerstone investors interested in marketing Ferrowest's remaining 50% of the Project MPI output in exchange for equity investments in the Company and other Project support initiatives. It would clearly be advantageous to be able to secure progressive equity investments as the Project develops over the next twelve months, particular given expectations that the equity market still faces an extended period of uncertainty.

Ferrowest believes that by securing substantial cornerstone investors as partners in the Project's development, it will increase the likelihood of successful construction financing following completion of the studies.

Western Haematite Project

Discussions with parties that are interested in joint venturing the Western Haematite Prospect progressed well during the Quarter.

A spring flora survey was completed during the Quarter 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.

Corporate

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.

In events subsequent to the end of the December Quarter:

The Yalgoo Iron Project

The Company remains in contact with the Cornerstone Investors on matters related to the Project and will advise the market of developments in relation to financing associated with the investment and off-take agreements when available.

The Company is also continuing to advance other off-take and investment discussions in respect of the other 50% of the proposed MPI production output. While the Board still remains confident that the Cornerstone Investors will finalise the required funding, advancing discussions with other parties for a further cornerstone investment will ensure an alternate source of funding for the Project in the event that the first Cornerstone Investors are unable to conclude their financing arrangements during the current quarter.

Corporate

Pending the finalisation of product off-take and investment agreements foreshadowed by the Company, the Board has taken steps to wind back operations and reduce costs in the short term. This is considered prudent in the current world financial situation. The Board also plans to raise sufficient funds during the current Quarter to meet the working capital requirements of the Company.

These actions will ensure that the Company is able to work toward finalising agreements on the Yalgoo Iron Project and the Western Haematite Prospect during this Quarter that will fund the studies into both of these projects and allow the Company to add significant value to the projects and therefore to the Company during 2009.

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The Yalgoo Iron Project - Outline

Ferrowest Limited is developing the Yalgoo Iron Project aimed at producing seaborne traded merchant pig iron (96%Fe) 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 iron ore to pig iron 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 Western Haematite Prospect – Outline

Ferrowest Limited has identified a potential zone of direct shipping ore ("DSO") grade haematite at its Yogi iron ore deposit 14 km east of Yalgoo in the mid west of Western Australia. The prospect is 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 widths up to 50m wide it has significant potential as a DSO project. Surface rock chip sampling along the Western Haematite Prospect produced an average grade of 55%Fe. Exploration of this deposit is currently underway.

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. 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.

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Rule 5.3

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

FERROWEST LIMITED

ABN	Quarter ended ("current quarter")
14 074 009 091	31 December 2008

Consolidated statement of cash flows

	Cash flows related to operating activities	Current quarter $A	Year to date (6 months) $A
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration and evaluation	(177,395)	(392,446)
	(b) development		
	(c) production		
	(d) administration	(152,812)	(273,719)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	378	542
1.5	Interest and other costs of finance paid	(15,454)	(25,374)
1.6	Income taxes paid	-	-
1.7	Other - GST recoverable	(7,586)	(1,380)
	Net Operating Cash Flows	(352,869)	(692,377)
	Cash flows related to investing activities		
1.8	Payment for purchases of: (a)prospects	-	-
	(b)equity investments	-	-
	(c) other fixed assets	(176)	(176)
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 – Bonds	-	-
	Net investing cash flows	(176)	(176)
1.13	Total operating and investing cash flows (carried forward)	(353,045)	(692,553)

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(353,045)	(692,553)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	200,000	465,000
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	240,000
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Capital raising costs	-	-
	Net financing cash flows	200,000	705,000
	Net increase (decrease) in cash held	(153,045)	12,447
1.20	Cash at beginning of quarter/year to date	243,350	77,858
1.21	Exchange rate adjustments to item 1.20		
1.22	**Cash at end of quarter**	90,305	90,305

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
1.23	Aggregate amount of payments to the parties included in item 1.2	30,185
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

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available $A	Amount used $A
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

+ See chapter 19 for defined terms.

Estimated cash outflows for next quarter

		$A
4.1	Exploration and evaluation	50,000
4.2	Development	-
	Total	**50,000**

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	Previous quarter $A
5.1 Cash on hand and at bank	90,305	243,350
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	90,305	243,350

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				
6.2	Interests in mining tenements acquired or increased	P59/1860	Tenement Granted	0%	100%

+ See chapter 19 for defined terms.

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** *(description)*				
7.2	Changes during quarter				
7.3	**+Ordinary securities**	62,912,323	62,912,323		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	2,000,000	2,000,000	10	10
7.5	**+Convertible debt securities** *(description)*	1,875,000 #	-	$0.40 face value	$0.40 face value
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	**Options** *(description and conversion factor)*	 3,325,000 26,900,561 707,500 1,875,000 1,250,000 1,250,000 1,250,000	 - 26,900,561 - - - - -	*Exercise price* $0.20 $0.25 Various $0.60 $0.47 $0.57 $0.67	*Expiry date* 1 January 2011 1 June 2010 Various 30 June 2010 31 January 2011 31 January 2011 31 January 2011
7.8	Issued during quarter	1,875,000 1,250,000 1,250,000 1,250,000	- - - -	$0.60 $0.47 $0.57 $0.67	30 June 2010 31 January 2011 31 January 2011 31 January 2011
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	**Debentures** *(totals only)*				
7.12	**Unsecured notes** *(totals only)*				

\# The principle terms of the Notes are as follows:

Number:	1,875,000
Face value:	$0.40 per Note
Term:	2 years from issue
Conversion price:	$0.40 per share
Interest rate:	10%

+ 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 4).

2 This statement does /~~does not~~* *(delete one)* give a true and fair view of the matters disclosed.

Sign here: .... Date: 30 January 2009
(Director/Company secretary)

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 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting 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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