

THE IRON AGE

Issue No.2

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THE MD'S CORNER

Dear Shareholder,

Welcome to the second issue of the 'Iron Age'. It has been a difficult time for investors but this is in contrast with a backdrop of a sustained resources boom. On the positive side merchant pig iron ('MPI') prices recently reached record highs of around US\$900/t but we have also seen cost increases and a strong Australian dollar absorbing some of these gains. We monitor what goes on in the world MPI markets and I am more convinced than ever that there are solid long term prospects for MPI and that this demand will be instrumental in ensuring that the Yalgoo Iron Project is a viable long term business. Despite short-lived market sentiment, real shareholder value will always be pinned to the financial returns generated by the Company and we are focused on this fact.



Brett Manning – MD

First Full Scale ITmk3® Plant on Track

The centrepiece of Ferrowest's Yalgoo Iron Project is the proposed merchant pig iron production facility for which we plan to use the new ITmk3® technology developed by Japanese steel maker Kobe Steel. The first full scale plant utilising this technology is currently under construction in the USA for American steel maker Steel Dynamics Inc.

I am pleased to report that this project is on-track for commissioning early next year. It gives us great confidence to see its progress. The second ITmk3® plant is being built for Cleveland Cliffs, also in the USA and Ferrowest hopes to be one of the first to licence the technology as soon as the operation of the first plant is proven.



The rotary hearth furnace under construction at the Steel Dynamics ITmk3® plant

The Yalgoo Iron Project under the Microscope

The most critical decision facing Ferrowest in recent times has been its choice of partners to help ensure the success of the Yalgoo Iron Project. Naturally we are seeking reliable long term customers to buy our MPI product but we are also looking for parties that are prepared to provide the funding we need to complete the feasibility studies. Another critical requirement for any prospective partner is the ability to add value to the project. This could be through technical expertise, a strong financial capacity or even a willingness to invest in the all important construction capital raising that will be required some time next year.

These potential partners are generally either end users of MPI (steel makers) or international traders of MPI and we are very pleased with the calibre of the companies that have been attracted to the project. It is an important part of the process that these parties also conduct detailed due-diligence of the project before making the serious commitments that we are seeking.

This process takes time but it is worthwhile to ensure our potential partners understand our business, particularly as they normally do not have direct involvement in the resource end of their supply lines.

One of the groups that has conducted due-diligence into the project is the Dongbu Steel Co., Ltd ('Dongbu'), a major Korean steel manufacturer that entered into a Memorandum of Understanding with Ferrowest last year.

Dongbu has worked closely with the Korean Resources Corporation ("Kores"), a Korean Government owned company whose job it is to indentify key mineral resources for Korea and assist companies like Dongbu in securing these resources. Kores operates worldwide and has extensive expertise in mining and resources.



Ferrowest's MD at one of Dongbu's three steel plants



The Dongbu & Kores team are briefed at Yogi by Graeme Johnston

In a typical example of the due-diligence activities that Ferrowest has facilitated this year, Dongbu and Kores sent a joint team of experts to Australia to review all aspects of the project. They then prepared reports for their management in South Korea that have formed the basis of subsequent negotiations between Ferrowest and Dongbu.

Whilst Dongbu is the only group that has been disclosed to the market at this time, there are three other serious contenders that may play a role in the development of the project. With most of the due-diligence now complete we hope to see initial agreements reached with one or more of these parties during this quarter. This will be a critical milestone in the development of the project.

The Western Haematite Prospect

Direct shipping grade iron ore (commonly called DSO) has been a great driver for many junior iron ore companies since the iron ore boom commenced. While Ferrowest's focus has been on adding value to magnetite iron ore, a recent discovery of a prospective 2km strike of DSO has given Ferrowest another potential string to its bow. Work will commence as soon as possible to evaluate this exciting opportunity that has the potential to be a relatively simple operation that could generate significant cash flow for the Company as it develops its flagship Yalgoo Iron Project. If exploration proves up a viable operation, then potentially up to 2 million tonnes per annum of ore could be exported for a number of years. This would diversify Ferrowest's income stream, particularly during the crucial early years of the development and commissioning of the Yalgoo Iron Project.

Employment with Ferrowest

One of the great advantages of value adding to iron ore here in Australia is the jobs it will create locally. Ferrowest will have two major workforce locations for the project. The first will be at the Yogi mine site 14km east of Yalgoo, which will include mining activities and the operation of the beneficiation plant. We expect the Yogi workforce to be around 200. An accommodation village is planned for the township of Yalgoo to house the workforce which will largely be fly in – fly out from Perth or drive in – drive out by coach from Geraldton.

The other main workforce location will be at Eradu, for the MPI plant, about 60km from Geraldton. About 100 employees will be engaged in the production of the MPI and it is expected that this workforce will predominantly reside in the Geraldton region.

There will be a diverse range of skilled, semi-skilled and unskilled jobs available across the project and Ferrowest is keen to tap into the local Mid West employment base. Following in the footsteps of Fortescue's successful VTEC programme in the north, Ferrowest will be seeking to maximise both indigenous employment and the returning of long term non-indigenous unemployed to the workforce by providing vocational training and guaranteed jobs to those who successfully complete the training programmes.



Ainsley Egan & Alex McKinley prep sample at Yogi