

THE IRON AGE

Issue No.1

7 March 2008

THE MD'S CORNER

Dear Shareholder,

Welcome to the first addition of "The Iron Age" a regular newsletter to help keep you up to date on the activities of your Company. For this first addition I wanted to give you a 'snap shot' of where we are placed strategically but in future editions we hope to bring you a variety of articles on aspects of the Yalgoo Iron Project and the people who are making it happen. I hope you will find the newsletter an informative but easy read. I believe it will allow us to provide you with a deeper understanding of your Company than is possible just through ASX Announcements. We will also make *The Iron Age* available on our web site in case you miss an issue.



Brett Manning - MD

The Share Market

The last three months have been a very difficult time for holders of securities on the Australian Securities Exchange. Speculative stocks, such as Ferrowest, have been particularly badly affected by market sentiment following the Sub-Prime Mortgage fall out in the USA which raised concerns, particularly about the availability of credit and its effect on continued world economic growth.

Whilst each individual shareholder must make their own assessment about which stocks to buy and sell, given their particular circumstances and investment objectives, your Board is keen to ensure that you are properly informed and aware of the prospects of your company, Ferrowest Limited.

We are keen to use this first addition of *The Iron Age* to summarise the progress on the company's Yalgoo Iron Project and explain how we are implementing the company's business plan to become a *'reliable supplier of high purity iron feedstock to the steel manufacturing industry'*.

Being an Iron Maker

When we give presentations on the company we go to some lengths to point out that we are not an 'iron ore' stock, we are an 'iron' stock and we will explain why we feel this is an important distinction for your investment portfolio, but first let's have a look at the iron ore sector.

Direct shipping iron ore is the direct feed to around 65% of world steel production using the blast furnace/basic oxygen furnace method. Despite all the 'doom and gloom' in the press on the potential USA led world recession we have seen recent iron ore price increases in the order of 65%. These increases are driven by the demand created by worldwide steel production growth. Whilst China leads this expansion, it is a worldwide trend.

Ferrowest proposes to produce merchant pig iron ("MPI") which is a 96% iron product that meets the requirements of high quality steel makers using the electric arc furnace method (about 35% of world steel production). This sector is expanding rapidly and shortfalls in feed materials are causing the prices for MPI to rise dramatically. In fact the landed price for MPI in Japan and South Korea climbed from around US\$400/t to US\$580/t (up 45%) since the Sub-Prime Mortgage crisis began in November. This vindicates the belief upon which Ferrowest was founded: *that the MPI production market has not had sufficient investment in new capacity to meet the continuously rising demand.*

As a direct consequence, MPI prices have increased by 45% since the Sub-Prime Mortgage crisis began, although subsequently the share price of Ferrowest has fallen significantly. You may question whether this means that Ferrowest is a bargain or whether there is a legitimate basis for its current market value.

It is true that a low share price and general market instability makes it expensive for companies like Ferrowest to raise the funds needed to expedite its project development. However it is also true that tough market conditions like these also force investors to be more diligent in seeking out investments based on solid fundamentals. This is where your Directors believe Ferrowest has strong credentials.

We have already discussed the market demand and solid prices for MPI that underpins the Yalgoo Iron Project. The exploration of our 100% Ferrowest owned iron ore resource also provides a firm base from which to grow our project. This is a tangible and known asset where drilling continues to add tonnes into the 'resource bank'.

The Yogi iron ore grade is relatively low, but this is not particularly relevant to our business plan because we propose to make real returns for shareholders by value adding the iron ore to produce MPI. If we chose instead to stop value adding at the magnetite concentrate stage, then our margin would be low and our production scale would need to be 6 to 10 million tonnes a year to be profitable. By taking the extra step to MPI we reduce the amount of material to be processed significantly, while generating revenues 4 to 5 times greater and boosting our margin dramatically.

Producing a lesser quantity of a much higher valued product, means we do not need to finance and install major infrastructure in order for the project to proceed. Anyone familiar with iron ore projects proposed for the Mid West region will understand how these projects are burdened by the need for large and complex infrastructure investments, which do not affect the Yalgoo Iron Project.

MPI Production Technology

The technology proposed for the production of Ferrowest's MPI is obviously a critical factor in the likelihood of our success and here too we have made significant steps forward in recent times by entering into a Memorandum of Understanding ("MOU") with the technology developer Kobe Steel and its 100% owned technology licensing and engineering arm Midrex Technologies Inc, USA. This MOU is already producing real benefit for Ferrowest with access to technical data and Kobe/Midrex technical expertise providing significant assistance in the project development. The first full scale ITmk3® plant being built for Steel Dynamics in the USA is starting to take shape and appears to be on schedule. It is gratifying to see the photos of the construction that is now well advanced, demonstrating the confidence of a major USA steel producer in the technology.



The Midrex team on a visit to Yalgoo with Ferrowest

Eradu Plant Site

Our recent decision to secure a block at Eradu for construction of the MPI plant is also a major step forward with significant economic benefits for Ferrowest. The economics that underpin the Yalgoo Iron Project are solid and we are confident that we will develop an operating business with good prospects and returns, over a period in excess of 20 years.

Project Financial Scope

If the Yalgoo Iron Project were operating today at its currently planned production of 500,000 tonnes per annum it would be generating gross sales of around A\$320 million per annum with earnings before interest, tax and depreciation (EBITDA) of around A\$80 million per annum. Given the potential to expand to 2 million tonnes per annum over a number of years and benefiting from the related economies of scale, Ferrowest has the potential to become a major Australian corporation. Importantly, the economics of the project have been based upon much more conservative sale prices than those of the current iron 'super-cycle' and the expected returns for shareholders are robust.



Proposed Eradu MPI Plant Site

A Strategy of Difference

This newsletter highlights the 'opportunity' that is Ferrowest. Your company is sound and strategically placed with long term opportunities differing from other iron ore developments. It is this difference in strategy that will have attracted many investors to Ferrowest. Your Directors believe in the long term prospects of Ferrowest and remain, as always, happy to talk with you about your Company and its prospects.