FERROWEST
LIMITED

ABN 14 074 009 091

Annual Report

for the year ended

30 June 2010

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CORPORATE DIRECTORY

FERROWEST LIMITED
ABN 14 074 009 091

Directors

Robert H Duffin	Non-executive Chairman
Brett L Manning	Managing Director
Barry E Wyatt	Non-executive Director
Philip J Evers	Non-executive Director
Graeme G Johnston	Executive Director

Company Secretary
Daniel J Bredenkamp

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Level 4, 130 Stirling Street
PERTH WA 6000

Solicitor
Jeremy Shervington
52 Ord Street
WEST PERTH WA 6005

Bankers
National Australia Bank Limited
Shop 76/77, Centro S/C, Cnr Burslem & Attfield
MADDINGTON WA 6109

Securities Exchange Listing
Australian Securities Exchange
(Home Branch – Perth)
ASX Code: FWL

REVIEW OF OPERATIONS

The activities of Ferrowest Limited ("Ferrowest" or "the Company") during the reporting period follow:

During the 2009/2010 financial year the activities of the Company were necessarily constrained by funding available for exploration and evaluation of its projects.

Western Haematite Project

Progress was made on the initial exploration of the Western Haematite Project with the completion of Aboriginal heritage surveys of 600ha in the primary target area for this project. Ground magnetics surveys and ground gravity surveys were also completed over the same 600ha area. The computer modelling of these surveys led to the further definition of around 17km of haematite bearing banded iron formations.

An initial RC drilling programme of 16 holes for a total of 850m of drilling was completed on a 2km section of the banded iron strike. This confirmed the presence of haematite and further enhanced the Company's understanding of the deposit but the grades were low and variable in the first section investigated and exploration remains ongoing. In addition to the further 15km of strike length yet to be explored, there are also further targets to be evaluated to the east of the magnetite resource and in the south of the Yogi tenement package.

On 19 November 2009, the Company entered into an Exclusive Option Agreement with Global Minmetal Corporation Pty Ltd in respect of an option to secure a 50:50 joint venture for the Western Haematite Project. This Exclusive Option Agreement was subject to certain conditions precedent, including Foreign Investment Review Board approval, being secured within 90 days. When these conditions precedent were not met in the prescribed time, the Exclusive Option Agreement lapsed. The Company therefore retains 100% ownership of the Western Haematite Project.

Discussions have been subsequently held with a number of parties about the potential to earn a joint venture interest in the project but no agreements have been finalised to date.

Yalgoo Iron Project

In January 2010, conditions began to improve following the global financial crisis and the Company was able to re-initiate discussions with potential investment and off-take partners for the Yalgoo Iron Project. Discussions were held with a number of parties during the balance of the reporting period.

Also in January 2010, Steel Dynamics in the USA announced that the first merchant pig iron ("MPI") nuggets had been produced using the ITmk3® technology. This first full scale plant to use the ITmk3® process is almost identical to the plant that the Company proposes to use for the production of MPI nuggets under the Yalgoo Iron Project. The commissioning of this plant has continued successfully throughout the balance of the reporting period and is expected to reach name plate capacity before the end of 2010. This is a very important milestone for the Yalgoo Iron Project because it will provide the project with cutting edge technology that is proven and bankable.

On 30 March, the Company announced a 390% increase in the Inferred Resources at Yogi for the Yalgoo Iron Project. The total Inferred Resources at Yogi now, classified and reported in accordance with the JORC Code, are **552Mt at 27.2%Fe**.

The details are as follows:

Mineral Resource Classification	Million Tonnes (Mt)	Fe%	SiO_2%	Al_2O_3%	P%	LOI%
Inferred (Fresh)	485.1	27.25	48.30	4.99	0.059	-0.15
Inferred (Transitional)*	67.1	26.96	48.02	5.33	0.056	0.98
Inferred Total	**552.2**	**27.21**	**48.30**	**5.03**	**0.059**	**-0.02**

Notes: Tonnages rounded to nearest 10,000 tonnes. Cut-off Grade 23.0% total Fe.

***Material that is partially oxidised but magnetite bearing.**

The Inferred Resource increase has come from a new section of the banded iron magnetite strike that is more than twice as wide as the widest previous section drilled. This favourable geometry of the mineralised zone is expected to significantly lower the stripping ratio in this 440Mt section and therefore materially reduce mining costs.

REVIEW OF OPERATIONS

The metallurgical response of this new section is currently being evaluated to determine if mass recoveries correlate with the higher average iron grades in this zone.

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.

Corporate

On 15 September, 4,300,000 shares were issued to sophisticated investors to raise $387,000 before costs to fund exploration on the Western Haematite Project and for working capital.

On 23 October 2009, 16,000 shares were issued upon exercise of employee options at $0.205 per share raising $3,280, On 6 November 2009 48,000 shares were issued upon exercise of employee options at $0.185 per share raising $8,800.

On 27 November 2009, 2,355,299 shares were issued in accordance with approved Resolutions 7, 8 and 9 that were passed at the Annual General Meeting in satisfaction of monies owed by the company to directors and related parties.

On 12 January 2010, 2,333,333 shares were issued to sophisticated investors to raise $230,000 before costs to fund ongoing exploration and working capital requirements.

On 20 April 2010, a General Meeting of the Company approved an offer to Convertible Note holders to extend the redemption date on the Convertible Notes currently on issue by 12 months. Following the meeting the holders of 1,725,000 Convertible Notes accepted the offer to extend the redemption date by 12 months and a further 150,000 Convertible Notes were not extended and were instead paid out.

On 14 May 2010, 9,000 shares were issued upon exercise of listed options at $0.25 per share raising $2,250.

On 21 May 2010, 2,300,000 shares were issued under the Share Purchase Plan at $0.12 per share to raise $276,000 to fund ongoing exploration and working capital requirements.

On 1 June 2010, 26,891,561 listed options (ASX Code: FWLO) expired.

The Company held its Annual General Meeting during the Reporting Period on 23 November 2009 and further General Meetings on 20 April 2010, 20 May 2010 and (subsequent to the end of the Reporting Period) on 14 July 2010.

Activities Subsequent to the Reporting Period

Subsequent to the end of the reporting period the following activities occurred:

- The Company raised $134,457.80 through a non-renounceable option issue to option holders. A total of 26,891,560 new options were issued with an exercise price of 25 cents and an expiry date of 28 June 2012. The new options have been quoted on the Australian Securities Exchange with the code FWLOA. The funds will be used for the Company's ongoing exploration activities and working capital.

There are no other matters or circumstances that have arisen since 30 June 2010 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial years.

DIRECTORS' REPORT

Your directors' submit the annual financial report of Ferrowest Limited for the financial year ended 30 June 2010. 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 the financial year and up to the date of this report are as follows:

Name	Appointed
Mr Robert Harry Duffin	1 January 2006
Mr Brett Lee Manning	10 April 2005
Mr Barry Edward Wyatt	16 May 1996
Mr Philip James Evers	20 January 2005
Mr Graeme Godsman Johnston	20 February 2006

Directors were in office for this entire period unless otherwise stated.

Information on Directors

Mr. Robert Harry Duffin

Chairman (Non-executive)

Appointed 1 January 2006

Bob Duffin is Chairman of the board and Chairman of the Company's Audit Committee.

Bob Duffin has BSc (Hons) and MSc (Hons) degrees, and a Graduate Diploma in Management. He is a Fellow and Chartered Professional in Management of the Australasian Institute of Mining and Metallurgy.

He spent the first 15 years of his career in exploration for a broad range of commodities including iron ore, base metals, gold, uranium, and coal in all Australian States, and overseas. During this period he held senior positions with Mt Isa Mines Limited and Peko-Wallsend Limited, spending 5 years in Kalgoorlie, 2 in Mt Isa and 1 in Brisbane.

He then moved into the resource investment and analysis sector, and spent 5 years as a mining analyst and research manager with 3 stockbroking firms in Sydney. He formed his own investment advisory business in 1990. He continues to manage this business.

Bob Duffin is Chairman of Western Plains Resources Limited, and is a former director of Centennial Coal Company Limited, Midwest Corporation Limited and a number of other listed companies including Burmine Limited and Europa Minerals Group PLC.

In the 3 years immediately before the end of the financial year, Bob has also served as a director of the following listed companies:

- Chairman of Western Plains Resources Ltd*; and
- Director of Centennial Coal Company Limited.

* denotes current directorships

DIRECTORS' REPORT

Mr. Brett Manning

Managing Director

Appointed 10 April 2005

Brett Manning is the Managing Director and a member of the company's Remuneration Committee. He is responsible to the board for the operations of Ferrowest and the successful implementation of the Company's business plan.

He has more than 16 years experience in corporate management in a resource projects environment with diverse experience in a variety of management disciplines including strategic planning, human resources, government liaison, company secretarial practice, policy development, tenement management, accounting and treasury.

Prior to working in corporate management, Brett commenced his career in the Royal Australian Air Force in advanced avionics, and subsequently moved into quality management facilitation.

Brett is also a published novelist.

In the 3 years immediately before the end of the financial year Brett held no other listed company directorships.

Mr. Barry Edward Wyatt

Project Director (Non-executive)

Appointed 16 May 1996

Barry Wyatt is the Company's Project Director and is a member of the Audit Committee. He has overall responsibility for the studies and development of the Yalgoo Iron Project.

He has a bachelor of civil engineering degree, previously a member of both the Institute of Engineers Australia and the Australasian Institute of Mining and Metallurgy and was a foundation member and Fellow of the Institute of Arbitrators and Mediators Australia.

He has over 40 years experience in engineering design and project management.

In the 3 years immediately before the end of the financial year Barry held no other listed company directorships.

Mr. Graeme Johnston

Chief Geologist & Director (Executive)

Appointed 20 February 2006

Graeme Johnston is the Company's Chief Geologist and is Chairman of the Remuneration Committee. He has overall responsibility for the exploration for iron ore, the maintenance of the Company's mineral tenement assets and for the development of JORC compliant Resources and Reserves required to underpin the Company's Projects.

Graeme has a B.Sc (Hons) in Geology, M.Sc. in Structural Geology and Rock Mechanics, a Diploma of Imperial College of Science and Technology and is a Fellow of the Geological Society of London.

Graeme has 24 years experience in geology and mineral exploration in Australia including 16 years directly involved in iron ore projects.

In the 3 years immediately before the end of the financial year Graeme held no other listed company directorships.

DIRECTORS' REPORT

Mr. Philip Evers

Principal Metallurgist & Director (Non-executive)

Appointed 20 January 2005

Phil Evers is the Company's Principal Metallurgist and a member of both the Audit and Remuneration Committees. He has responsibility for the metallurgical test work and process development encompassing both the beneficiation plant and merchant pig iron plant integration into the Yalgoo Iron Project.

Phil has a BSc (Tech) in Mineral Processing Technology from the University of NSW.

He has over 28 years experience in mineral processing including plant management, project development, process design and in recent years as a consultant metallurgist specialising in iron ore processing.

In the 3 years immediately before the end of the financial year Phil held no other listed company directorships.

Company Secretary

Daniel Johannes Bredenkamp

Daniel was appointed Company Secretary on 28 November 2006.

Daniel has 15 years of experience in business and his previous appointments include Pitcher Partners in Perth, KPMG Audit Tax and Advisory in South Africa and the Serious Fraud Office in London. Daniel has extensive experience in managing different entities and has been involved in the resources sector in both South Africa and Australia.

Daniel is also the Chief Financial Officer of the Company and is a member of CPA Australia, a Fellow of the Institute of Chartered Secretaries and Administrators and Chartered Secretaries Australia.

Directors' Interests in Shares and Options of the Company

The interest of each Director in the shares and options of the Company at the date of this report is as follows:

	Number of options over ordinary shares	Number of fully paid ordinary shares
Mr Robert H Duffin	3,325,000[1] 750,000[2] 350,000[3]	2,615,131
Mr Brett L Manning	750,000[2] 325,000[3]	2,438,649
Mr Barry E Wyatt	750,000[2] 325,000[3]	4,605,677
Mr Philip J Evers	750,000[2] 325,000[3]	4,982,761
Mr Graeme G Johnston	500,000[2] 575,000[3]	4,994,528

1. Unlisted options expiring 1 January 2011, exercisable at 20 cents each
2. Unlisted options expiring 31 January 2011, three 250,000 lots exercisable at 47, 57 and 67 cents each respectively
3. Convertible Notes face value 40 cents each

DIRECTORS' REPORT

At the date of this report unissued ordinary shares of the Company under option are:

Expiry Date	Exercise price	Number of shares
1 January 2011	20 cents	3,325,000
21 August 2010	18 cents	84,000
21 August 2011	18 cents	84,000
8 November 2010	18.5 cents	36,000
8 November 2011	18.5 cents	36,000
1 August 2010	20 cents	22,500
1 August 2011	20 cents	22,500
19 November 2010	56.5 cents	26,000
19 November 2011	56.5 cents	19,500
19 November 2012	56.5 cents	19,500
23 October 2010	20.5 cents	12,000
23 October 2011	20.5 cents	12,000
6 August 2011	21 cents	51,000
6 August 2012	21 cents	38,250
6 August 2013	21 cents	38,250
31 January 2011	47 cents	1,250,000
31 January 2011	57 cents	1,250,000
31 January 2011	67 cents	1,250,000

Corporate Structure

Ferrowest Limited is a limited liability company that is incorporated and domiciled in Australia. Ferrowest Limited has no parent entity or subsidiary companies.

Nature of Operations and Principal Activities

The principal activities of the Company during the year was conducting exploration and feasibility studies on the following resource projects that are 100% owned by the Company:

The Yalgoo Iron Project

The Company 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 Project (WHP)

The Company has identified potential zones of direct shipping ore ("DSO") grade haematite at its Yogi iron deposit 14 km east of Yalgoo in the mid west of Western Australia. Exploration of a 600Ha area is ongoing with a number of potential haematite targets identified. The current concept for the WHP, subject to satisfactory exploration, study results and government approvals, envisages mine production of around 1.5Mtpa, with the direct shipping grade ore being 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 provides an excellent basis for the WHP.

Review of Operations

A review of the Company's operations is contained in the section headed Review of Operations.

DIRECTORS' REPORT

Operating Results

The loss of the Company for the financial year after tax was $1,076,646 (2009: $1,617,074).

Dividends

No dividends have been paid or declared by the Company since the start of the financial year and up to the date of this report. The Directors do not recommend the payment of a dividend.

Significant Events After Balance Date

Subsequent to the end of the reporting period the following activities occurred:

- The Company raised $134,457.80 through a non-renounceable option issue to option holders. A total of 26,891,560 new options were issued with an exercise price of 25 cents and an expiry date of 28 June 2012. The new options have been quoted on the Australian Securities Exchange with the code FWLOA. The funds will be used for the Company's ongoing exploration activities and working capital.

There are no other matters or circumstances that have arisen since 30 June 2010 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial years.

Likely Developments and Expected Results of Operations

The Yalgoo Iron Project

The Company intends to continue conducting exploration and feasibility studies for the Yalgoo Iron Project with the aim of completing the Definitive Engineering Study in the next 12 months. The Company expects to be able to secure the funding necessary to complete these activities through either securing an investment and off-take agreement with a project partner or by further equity raisings.

The Western Haematite Project

The Company intends to advance exploration and studies into the Western Haematite Prospect with the target, subject to successful exploration results, of determining a maiden JORC haematite Resource during the next 12 months. The Company will continue to seek a Joint Venture partner to fund the exploration and development of the project.

Environmental Legislation

The Company is subject to the normal environmental requirements (both State and Federal) applicable to exploration and project development activities in the State of Western Australia.

The Directors believe that meeting or exceeding the Company's environmental obligations are a core business function and have instituted corporate policies and practices to ensure the Company strives for environmental best practice.

No environmental breaches have occurred or have been notified by any Government agencies during the year ended 30 June 2010, or subsequent to year end.

Corporate Governance

The Corporate Governance policies of the Company are set out in the Corporate Governance Report.

DIRECTORS' REPORT

Indemnification and insurance of Directors and Officers

The company has agreed to indemnify all the directors of the company for any liabilities to another person (other than the Company or related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

During the financial year the Company paid a premium in respect of a contract insuring the directors and officers of the company and its controlled entities against any liability incurred in the course of their duties to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Remuneration report (Audited)

This report outlines the remuneration arrangements in place for directors and executives of Ferrowest for the financial year ended 30 June 2010. The information provided in this remuneration report has been audited as required by Section 308(3C) of the *Corporations Act 2001.*

The following persons acted as directors during or since the end of the financial year:

Mr Robert Harry Duffin (Non-executive Chairman)

Mr Brett Lee Manning (Managing Director)

Mr Barry Edward Wyatt (Non-executive Director)

Mr Philip James Evers (Non-executive Director)

Mr Graeme Godsman Johnston (Executive Director)

The term 'senior management' is used in this remuneration report to refer to the following persons. Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year:

Mr Daniel Johannes Bredenkamp (Chief Financial Officer and Company Secretary)

Remuneration philosophy

The performance of the Company depends upon the quality of the directors and executives. The philosophy of the Company in determining remuneration levels is to:

- set competitive remuneration packages to attract and retain high calibre directors and employees;
- link executive rewards to shareholder value creation; and
- establish appropriate performance hurdles for variable executive remuneration.

Remuneration committee

The Remuneration Committee of the Board of Directors of the Company is responsible for reviewing compensation arrangements for the directors, the Managing Director and the Chief Financial Officer and making recommendations to the Board.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of directors and senior executives on a periodic basis by reference to relevant employment market conditions, with an overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Remuneration structure

In accordance with best practice Corporate Governance, the remuneration structure of non-executive

DIRECTORS' REPORT

directors, senior managers and executive remuneration is separate and distinct.

Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a General Meeting. The latest determination was at the Annual General Meeting held on 3 November 2005 when shareholders approved an aggregate remuneration of $250,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external sources as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each non-executive director receives a fee for being a director of the Company. Currently directors' fees are set at $38,150 per annum for non-executive directors and $54,500 per annum for the non-executive Chairman. These amounts are inclusive of superannuation where applicable.

Directors do not receive additional fees in respect of Committee responsibilities.

The remuneration of non-executive directors for the period ended 30 June 2010 is detailed on page 14 of this report.

Senior Manager and Executive Director Remuneration

The Company has a system of remuneration for its senior management that consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentive schemes).

Fixed Remuneration

Fixed remuneration is reviewed annually by the Remuneration Committee. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Committee has access to external, independent advice where necessary.

Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

Variable Remuneration

The Company has implemented a variable remuneration component of its remuneration policy. The objective of the short term incentive program is to link the achievement of the Company's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential short term incentive available has been set at a level so as to provide sufficient incentive to the senior manager to achieve the operational targets and such that the cost to the Company is reasonable in the circumstances.

The Company has introduced a long term incentive plan to reward directors, employees and certain consultants in a manner that aligns this element of remuneration with the creation of shareholder wealth.

Employment Contracts

At 30 June 2010 the following senior executives employment contracts were in place:

Brett Manning – Managing Director

Pursuant to a contract of employment dated 5 November 2005, varied upon appointment as Managing Director on 1 February 2006 and revised on 19 November 2007, Brett Manning is engaged as a permanent full time employee of the Company on the following key terms and conditions:

DIRECTORS' REPORT

- Fixed Remuneration - $180,000 per annum plus statutory 9% superannuation
- Variable Remuneration – Both the long term and short term incentive schemes were suspended for the 2009/2010 financial year due to the impact of the Global Financial Crisis.
- Special Benefits - Nil
- Period of Notice for Resignation – Six Weeks
- Period of Notice for Termination – Twelve Weeks
- Entitlement on Termination upon Change of Control – 6 Calender months pay and applicable Superannuation and any unpaid cash bonuses forming part of the employment contract
- Remuneration on Resignation or Termination – 1 Weeks pay for each year of service to a maximum of 6 Weeks
- Long Service Leave – 12 Weeks after 10 years continuous service

Mr Manning agreed to defer payment of 50% of his base remuneration during the reporting period until the Company is better placed financially to meet this obligation.

Daniel Bredenkamp – Chief Financial Officer and Company Secretary

Pursuant to a contract of employment dated 6 August 2006 and varied on 19 November 2007, 21 January 2009 and 13 February 2009, Daniel Bredenkamp is engaged as a permanent part-time employee of the Company on the following key terms and conditions:

- Pro-rata remuneration rate equal to a full time equivalent of $150,000 per annum plus statutory 9% superannuation payable for hours worked
- Variable Remuneration – Currently Nil but may participate in future Company schemes
- Equity Options – 280,000 options with entitlement staggered over three years from the commencement of employment with the Company. 40% of total options issued vest after 1 year from commencement of employment, 30% after 2 years and 30% after 3 years. The options are issued free of charge with an exercise price of $0.18 and expiry date in respect of each tranche of options are 2 years after the relevant vesting date. As at 30 June 2010 168,000 options remain vested and current.
- Special Benefits - Nil
- Period of Notice for Resignation/Termination – Four Weeks
- Entitlement on Termination upon Change of Control – 3 Calender months pay and applicable Superannuation
- Remuneration on Resignation or Termination – 1 Weeks pay for each year of service to a maximum of 6 Weeks
- Long Service Leave – 12 Weeks after 10 years continuous service

DIRECTORS' REPORT

Remuneration of directors and named executives

Table 1: Directors' remuneration for the year ended 30 June 2010

		Primary benefits			Post employment		Equity	Other	Total	
		Salary & Fees $	Bonuses $	Non Monetary Benefits $	Super-annuation $	Prescribed benefits $	Options $	$	$	Performance Related %
Mr Bob Duffin	2009	54,500	-	-	-	-	39,750	-	94,250	-
	2010	54,500	-	-	-	-	-	-	54,500	-
Mr Brett Manning	2009	180,000	-	-	16,200	-	39,750	-	235,950	-
	2010	180,000	-	-	16,200	-	-	-	196,200	-
Mr Barry Wyatt	2009	114,650	-	-	3,150	-	39,750	-	157,550	-
	2010	43,400	-	-	3,150	-	-	-	46,550	-
Mr Graeme Johnston	2009	79,073	-	-	-	-	39,750	-	118,823	-
	2010	35,000	-	-	-	-	-	-	35,000	-
Mr Phil Evers	2009	62,750	-	-	3,150	-	39,750	-	105,650	-
	2010	35,000	-	-	3,150	-	-	-	38,150	-

DIRECTORS' REPORT

Table 2: Named Executives' remuneration for the year ended 30 June 2010

		Primary benefits			Post employment		Equity	Other	Total	
		Salary & Fees $	Bonuses $	Non Monetary Benefits $	Super-annuation $	Prescribed benefits $	Options $	$	$	Performance Related %
Mr Daniel Bredenkamp	2009	**96,346**	-	-	**8,671**	-	-	-	**105,017**	-
	2010	**11,538**	-	-	**1,038**	-	-	-	**12,576**	-

Table 3: Options granted during the year as part of remuneration

	Value of options granted at grant date $	Value of options exercised at exercise date $	Value of options lapsed at time of lapse $	Total value of options granted, exercised and lapsed $	Value of options lapsed during year $	Value of options included in remuneration for the year $	Remuneration consisting of options for the year %
Mr Bob Duffin	-	-	-	-	-	-	-
Mr Brett Manning	-	-	-	-	-	-	-
Mr Barry Wyatt	-	-	-	-	-	-	-
Mr Graeme Johnston	-	-	-	-	-	-	-
Mr Philip Evers	-	-	-	-	-	-	-

DIRECTORS' REPORT

Directors' Meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

	Board Meetings		Committee Meetings	
	Number Attended	Maximum Possible	Audit	Remuneration
Number of meetings held:			**2**	**0**
Mr Robert H Duffin	**10**	**10**	**2**	*****
Mr Brett L Manning	**10**	**10**	*****	**0**
Mr Barry E Wyatt	**10**	**10**	**2**	*****
Mr Graeme G Johnston	**7**	**10**	*****	**0**
Mr Philip J Evers	**10**	**10**	**2**	**0**

* - Not a member of this committee

Auditor Independence and Non-Audit Services

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 audit of the Annual Report. This Independence Declaration is set out on page 22 and forms part of this directors' report for the year ended 30 June 2010.

There were no non-audit services provided by our auditors, HLB Mann Judd.

Signed in accordance with a resolution of the directors.

Bob Duffin
Chairman
PERTH, Western Australia
20 September 2010

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Ferrowest Limited is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Company's Corporate Governance Statement is structured with reference to the ASX Corporate Governance Council's published guidelines, which are as follows:

Principle 1. Lay solid foundations for management and oversight
Principle 2. Structure the board to add value
Principle 3. Promote ethical and responsible decision making
Principle 4. Safeguard integrity in financial reporting
Principle 5. Make timely and balanced disclosure
Principle 6. Respect the rights of shareholders
Principle 7. Recognise and manage risk
Principle 8. Remunerate fairly and responsibly

During the Reporting Period the Company has complied with the Corporate Governance Principles and Recommendations as published by the ASX Corporate Governance Council, other than in relation to the matters specified below:

Principle	Recom' #	Departure	Explanation
2	**2.1**	The majority of the Board are not independent Directors.	While your Board concurs with the principle of having a majority of non-executive and independent directors on the Board, it is considered that utilising the technical consulting expertise of the current Board can add more value to the management of the Company at this stage in its development. The Board will seek to maximise non-executive and independent representation on the Board in the future, within the constraints of prudent management practice.
	2.4	The Company does not operate a Nomination Committee.	Due to the small size of the Board the nomination committee function is performed by the full Board.
4	**4.2**	The Audit Committee is not made up of a majority of independent non-executive Directors.	The current Board composition does not allow for a majority of independent Directors on the Audit Committee.
		The Chairman of the Audit Committee is the Chairman of the Board.	With the current make-up of the Board, the Chairman of the Board is the only member not providing operational services to the Company. Therefore the Board deems him to be the most independent member for the purposes of chairing the Audit Committee under the current structure.

CORPORATE GOVERNANCE STATEMENT

Details of the Company's Corporate Governance Policies are available on the Ferrowest website at www.ferrowest.com.au

The Role of Corporate Governance in the Company

The Board of Ferrowest are committed to high standards of Corporate Governance in the performance of their duties. The following summary identifies the main Corporate Governance Policies of the Company:

The Directors are accountable to the shareholders of the Company as a whole for the performance of Ferrowest.

The Board has determined that its primary function is in:

- Establishing, monitoring and reviewing the strategic direction of the Company;
- Delegating management authorities;
- Approving master budgets and allocating financial resources;
- Reviewing financial performance to budget and amending where required;
- Approving material transactions, significant management initiatives, investment strategies and major capital purchases or divestments;
- The appointment or termination of key personnel; and
- Evaluating corporate risk.

Day to day operation of the Company is delegated to the Managing Director, who is accountable to the Board. The Board also retains certain powers that it does not delegate to management. The delegation of authority and responsibility is clearly defined in writing.

The Board has been structured to offer expertise across a range of technical disciplines that are key to implementation of the Company's business plans at this stage of its development.

The Board will seek to nominate persons to the Board who have the suitable qualifications, experience and skills to augment the capabilities of the Board.

While your Board concurs with the principle of having a majority of non-executive and independent directors on the Board, it is considered that a Board with a majority of executive directors can add more value to the management of the Company at this stage in its development.

The Board will seek to maximise non-executive and independent representation on the Board in the future, within the constraints of prudent management practice.

Given the relatively small size of the Company and Board, the Board will not establish a Nomination Committee at this stage, retaining these responsibilities as a full Board function.

Ethical and Responsible Decision Making

The Company has a ***Code of Conduct*** that binds directors, officers and employees.

The Company also has a published set of ***Values*** to provide further guidance to directors, officers and employees.

The Company Secretary is responsible for the investigation of any possible breaches of the Company's Code of Conduct with findings presented to the Managing Director in respect of employees and the Chairman in respect of a Board member.

The Company has also implemented a range of written policies covering the actions of directors, officers and employees in the following areas:

Privacy Policy;	Health & Safety Policy;
Environmental Policy;	Corporate Governance Policy;
Indigenous Policy;	Equal Opportunity Employment Policy; and
Sustainable Development Policy.	

Details of these policies are available on the Company's website at www.ferrowest.com.au .

CORPORATE GOVERNANCE STATEMENT

Trading in Shares of the Company

The Company welcomes directors, officers and employees of the Company holding its securities because it demonstrates commitment and belief in the Company and provides further reward for successful performance. However, any party that is aware of material information that is not available to the market and is of a price sensitive nature is not permitted by law to trade in the shares of the Company until such information is released to the ASX. The Corporations Act 2001 and other regulations specify when a party may or may not trade in shares of the Company.

The Company makes directors, officers and employees aware of their responsibilities under the Corporations Act 2001 and other regulations, when trading in the shares of the Company.

The Company does not support a policy of trading windows or other company managed controls on share trading. The Company believes that educating its directors, officers and employees about the applicable laws is the most appropriate policy action in regard to trading shares in the Company.

Continuous Disclosure

The Managing Director, with advice from the Company Secretary where appropriate, is responsible for bringing continuous disclosure matters to the attention of the Board of Directors. To ensure the timely disclosure of pertinent matters, the Managing Director has the delegated authority to disclose routine matters of fact to the ASX without reference to the Board. The Managing Director is also delegated to take all reasonable actions to comply with urgent disclosure matters in the event that the Board is unable to meet or communicate in a timely manner, including calling a trading halt if required. These matters of continuous disclosure policy are documented in standing resolutions of the Board.

Shareholder Communications

Good communication with shareholders is important to the Board. It is the policy of the Board to keep shareholders informed of the Company's activities and encourage appropriate shareholder participation at General Meetings. This communication is achieved through ASX Announcements, the Company's website, periodic public presentations and an email mail-out system for shareholders and other interested parties.

Recognising and Managing Risk

At this stage of the Company's development its primary activities involve exploration and the preparation of feasibility studies into the Company's mineral based projects.

Risk is systematically managed through a series of applicable Company systems and policies that address the main areas of risk facing the Company, including financial and accounting controls, insurance of assets, occupational health and safety, environmental management, land access and tenure etc. The Company will also implement a systematic risk assessment program in parallel with the studies into its mineral projects to ensure that as the Company's activities evolve, the appropriate risk management systems are enhanced or added to as required.

The Board has delegated some specific risk management tasks to the Managing Director in writing and he has in turn delegated some of these areas in writing to the Chief Financial Officer including the maintenance of corporate accounts, treasury, contracts and insurances.

The Managing Director reports all material risk matters to the Board at meetings of the Board and otherwise as required.

The Board receives specific written assurances from the Managing Director (as the Chief Executive Officer) and the Chief Financial Officer upon preparation of both the Company's annual and half yearly financial accounts with respect to the integrity of the financial management of the Company and that the accounts are a true and fair representation of the Company's position, in accordance with section 295A of the Corporations Act 2001.

Skills, Experience and Expertise of each Director

A profile of each Director is contained in the Director's Report and further information is available on the Company's website at www.ferrowest.com.au.

CORPORATE GOVERNANCE STATEMENT

Directors Fees to Non-executive Directors

The shareholders of the Company approved total fees payable to non-executive directors of $250,000 per annum at a General Meeting of the Company held on 3 November 2005.

The Board has resolved that the current directors' fees are:

- Non-executive directors - $38,150pa
- Non-executive chair - $54,500pa

These amounts include an allowance for statutory superannuation.

Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred as a result of attendance at Board meetings and the discharge of other director related duties.

Board members are not provided any additional remuneration in respect of any standing Board Committee memberships.

The term in office held by each director in office at the date of this report is as follows:

Name	Term in Office	Name	Term in Office
Mr Robert Duffin	5.5 years	Mr Brett Manning	6.0 years
Mr Barry Wyatt	15.0 years	Mr Philip Evers	6.5 years
Mr Graeme Johnston	5.5 years		

Identification of Independent Directors

The independent director of Ferrowest is the Chairman, Robert Duffin.

Evaluating Performance of Board Members and Senior Executives

The Board of Directors conduct an annual formal written Peer Review for each member of the Board to evaluate the performance and contribution of each member both in respect of their participation on the Board and any relevant Board Committees.

The performance of the Senior Executives is evaluated annually through a formal written Performance Appraisal process.

Statement on Independent Professional Advice

If requested by a Director, the Company will pay for independent professional advice for a Director in the discharge of their duties provided that the prior approval of the Chairman is obtained.

Retirement Benefits for Non-executive Directors

There are no termination or retirement benefits for non-executive directors.

Board Committee Memberships

Audit Committee

The Board has established an Audit Committee and has delegated it with responsibility to ensure that an effective internal control framework exists within the Company. This includes internal controls to deal with significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information.

The Audit Committee has a Charter to govern its activities that has been approved by the Board of Directors.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit Committee are non-executive directors.

The members of the Audit Committee during the year were:

Mr Bob Duffin (Chairman)

Mr Phil Evers

Mr Barry Wyatt

CORPORATE GOVERNANCE STATEMENT

Remuneration Committee

It is the company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions.

The Board has established a Remuneration Committee, comprising of three directors. Members of the Remuneration Committee throughout the year were:

Mr Graeme Johnston (Chairman)

Mr Phil Evers

Mr Brett Manning

The Remuneration Committee reviews the remuneration of the Board itself, the Managing Director and the Chief Financial Officer. The Remuneration Committee also considers external advice and employment data to ensure the overall remuneration practices of the Company are appropriate.

The expected outcomes of the remuneration structure are:

- retention and motivation of key executives;
- attraction of high quality management to the company: and
- performance incentives that allow executives to share the success of Ferrowest Limited.

To assist in achieving the Company's remuneration objectives, the Remuneration Committee links the nature and amount of executive directors' emoluments to the company's financial and operational performance.

For a full discussion of the company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period please refer to the remuneration report, which is contained within the Directors' Report.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves, the Managing Director and the Chief Financial Officer on advice from the Remuneration Committee. The Managing Director is responsible for the general remuneration policies and practices that apply to the balance of employees within the Company.

HLB Mann Judd

Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Ferrowest Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Ferrowest Limited.

Perth, Western Australia
20 September 2010

N G NEILL
Partner, HLB Mann Judd

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
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Liability limited by a scheme approved under Professional Standards Legislation

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	Notes	2010 $	2009 $
Revenue	2	3,769	4,801
Salaries and employee benefits expense		(249,122)	(404,746)
Depreciation and loss on disposal		(40,909)	(93,403)
Exploration and tenement expenditure		(327,441)	(296,826)
Interest and finance costs		(75,175)	(77,356)
Share based payment		(6,515)	(313,226)
Corporate and administration costs		(381,253)	(436,318)
Loss before income tax expense	2	**(1,076,646)**	**(1,617,074)**
Income tax expense	3	-	-
Loss after tax from continuing operations		**(1,076,646)**	**(1,617,074)**
Net loss for the year		**(1,076,646)**	**(1,617,074)**
Other Comprehensive Income		**-**	**-**
Comprehensive loss for the year		**(1,076,646)**	**(1,617,074)**
Basic loss per share (cents per share)	4	**(1.45)**	**(2.5)**

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

	Notes	2010 $	2009 $
Assets			
Current Assets			
Cash and cash equivalents	5	176,287	142,476
Other assets	6	112,693	104,750
Total Current Assets		288,980	247,226
Non-Current Assets			
Property, plant and equipment	7	223,180	280,913
Deferred exploration expenditure	8	6,587,796	6,374,549
Total Non-Current Assets		6,810,976	6,655,462
Total Assets		7,099,956	6,902,688
Liabilities			
Current Liabilities			
Borrowings	11	381,870	-
Trade and other payables	10	935,711	684,550
Total Current Liabilities		1,317,581	684,550
Non-Current Liabilities			
Borrowings	11	295,714	737,584
Total Non-Current Liabilities		295,714	737,584
Total Liabilities		1,613,295	1,422,134
Net Assets		5,486,661	5,480,554
Equity			
Issued capital	12	10,091,862	9,015,624
Reserves	12	322,838	1,396,324
Accumulated Losses		(4,928,039)	(4,931,394)
Total Equity		5,486,661	5,480,554

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 $	2009 $
Cash flows from operating activities			
Payments to suppliers and employees		(348,401)	(497,744)
Interest received		3,769	4,801
Interest paid and finance costs		(15,918)	(32,452)
Net cash (used in) operating activities	5	(360,550)	(525,395)
Cash flows from investing activities			
Proceeds on sale of non-current assets		2,000	-
Payments for exploration expenditure		(503,241)	(513,487)
Net cash (used in) investing activities		(501,243)	(513,487)
Cash flows from financing activities			
Proceeds from issue of securities		978,822	863,500
Share issue costs		(23,220)	-
Proceeds from borrowings		20,000	240,000
Repayment of borrowings		(80,000)	-
Net cash provided by financing activities		895,602	1,103,500
Net increase in cash and cash equivalents		33,811	64,618
Cash and cash equivalents at 1 July	5	142,476	77,858
Cash and cash equivalents at 30 June 2010	5	176,287	142,476

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

	Issued Capital $	Accumulated Losses $	Other Reserves $	Total $
Balance at 1 July 2008	8,148,426	(3,314,320)	1,137,423	5,971,529
Securities issued during the period	867,198	-	-	867,198
Convertible Note – equity portion	-	-	(54,325)	(54,325)
Share-based payments	-	-	313,226	313,226
Net loss for period	-	(1,617,074)	-	(1,617,074)
Balance at 30 June 2009	9,015,624	(4,931,394)	1,396,324	5,480,554
Securities issued during the period	1,076,238	-	-	1,076,238
Share-based payments	-	-	6,515	6,515
Transfer of reserve on option expiry	-	1,080,001	(1,080,001)	-
Net loss for period	-	(1,076,646)	-	(1,076,646)
Balance at 30 June 2010	10,091,862	(4,928,039)	322,838	5,486,661

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law.

The financial report has also been prepared in accordance with the historical cost convention. The following is a summary of the significant accounting policies adopted by the Company in the preparation of the financial report. The Company is a listed public company, incorporated in Australia and operating in Australia. The financial report is presented in Australian dollars.

The Company has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the Statement of Comprehensive Income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

Reporting Basis and Conventions

The financial report has been prepared on the basis of accounting principles applicable to a going concern, which assumes the commercial realisation of the future potential of the Company's assets and the discharge of its liabilities in the normal course of business.

Going Concern

Notwithstanding the deficiency of working capital of $1,028,601 the Board considers that the Company is a going concern and recognises that additional funding is required to ensure that the Company can continue to fund its operations and further develop its mineral exploration and evaluation assets during the twelve months from the date of signing this financial report.

Funds have been raised since the end of the reporting period through the issue of options (refer to Note 18 – Subsequent Events).

Further additional funding will be derived from one or a combination of the following:

- The placement of further securities under the ASX Listing Rule 7.1 or otherwise;
- An excluded offer pursuant to the Corporations Act 2001;
- Payments from parties acquiring a percentage Joint Venture interest in the Company's projects;
- The 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 23 September 2010) up until 21 December 2010 when the facility expires;
- Loans or other direct funding from parties seeking the off-take rights to future production output from the Company's projects;
- Loan funds secured against assets of the Company; or
- The sale of assets.

Discussions with potential off-take and investment partners for the Yalgoo Iron Project are ongoing. These proposed agreements include the provision of significant amounts of funding from these parties to the Company that would enable it to fully exploit its business plan objectives for the year now current.

The Company is also continuing discussions with parties interested in providing funding to advance the exploration of the Western Haematite Project in exchange for a percentage joint venture interest in that asset. These discussions centre on parties earning a joint venture interest in the project by providing funds directly into the project's exploration and possible equity or loan funds into the Company that can be utilised as working capital to advance the Company's other interests.

The 490% increase in the Company's Inferred Resource of magnetite iron to 552Mt at 27.2%Fe is a very valuable asset for which there is a liquid market. This value underpins the value of the Company's operations.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

(a) Basis of Preparation (continued)

Accordingly, the Directors believe the Company will obtain sufficient funding from one or more of the funding opportunities detailed above to enable it to continue as a going concern and that it is appropriate to adopt that basis of accounting in the preparation of the financial report.

Should none of the future equity raisings and/or the other agreements mentioned above be completed, there would be significant uncertainty as to whether the company would 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. The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts, or to the amounts or classification of liabilities that might be necessary should the company not be able to continue as a going concern.

(b) Adoption of new and revised standards

Changes in accounting policies on initial application of Accounting Standards

In the year ended 30 June 2010, 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 the current annual reporting period.

During the year, certain accounting policies have changed as a result of new or revised accounting standards which became operative for the annual reporting period covering 1 July 2009. The affected policies and standards are:

- Segment Reporting – New AASB 8 Operating Segments; and
- Financial Instruments – Revised AASB 7 Financial Instruments: Disclosures.

The Company has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2010. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Company accounting policies.

(c) Statement of Compliance

The financial report was authorised for issue on 20 September 2010.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(d) Critical accounting judgements and key sources of estimation uncertainty

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Share-based payment transactions:

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value was determined by an external valuer using a Black and Scholes model.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

(d) Critical accounting judgements and key sources of estimation uncertainty (continued)

Exploration and evaluation costs carried forward

The recoverability of the carrying amount of exploration and evaluation costs carried forward has been reviewed by the directors. In conducting the review, the recoverable amount has been assessed by reference to the higher of "fair value less costs to sell" and "value in use". In determining value in use, future cash flows are based on:

- Estimates of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Estimated production and sales levels;
- Estimate future commodity prices;
- Future costs of production;
- Future capital expenditure; and/or
- Future exchange rates.

Variations to expected future cash flows, and timing thereof, could result in significant changes to the impairment test results, which in turn could impact future financial results.

The Company's accounting policy for exploration and evaluation expenditure is set out at Note 1(m). The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under the policy, it is concluded that the expenditures are unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the Statement of Comprehensive Income.

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(f) Borrowing Costs

Borrowing costs are recognised as an expense when incurred except those that relate to the acquisition, construction or production of qualifying assets where the borrowing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

(g) Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as described above, net of outstanding bank overdrafts.

(h) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(h) Trade and other receivables (continued)

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Company in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Company. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of impairment loss is recognised in the Statement of Comprehensive Income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of Comprehensive Income.

(i) Income Tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

(i) Income Tax (continued)

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(j) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

(k) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Plant and equipment – over 3 to 10 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the Statement of Comprehensive Income in a cost of sales line item where applicable.

(ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(l) Financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

(l) Financial assets (continued)

The Company determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the Statement of Comprehensive Income.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the Statement of Comprehensive Income when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Statement of Comprehensive Income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the Statement of Comprehensive Income.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

(m) Impairment of financial assets

The Company assesses at each balance date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in the Statement of Comprehensive Income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the Statement of Comprehensive Income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

(iii) Available-for-sale investments

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the Statement of Comprehensive Income. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through the Statement of Comprehensive Income if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

(n) Exploration and evaluation

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

i. the rights to tenure of the area of interest are current; and
ii. at least one of the following conditions is also met:
    a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
    b) exploration and evaluation activities in the area of interest have not at the balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortised of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

(o) Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Comprehensive Income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

(o) Impairment of assets (continued)

After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(p) Trade and other payables

Trade payables and other payables are carried at cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

(q) Interest-bearing loans and borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probably that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the note. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the Statement of Comprehensive Income as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(r) Employee leave benefits

Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(s) Share-based payment transactions

(i) Equity settled transactions:

The Company provides benefits to employees (including senior executives) of the Company in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There is currently one plan in place to provide these benefits:

- The Employee Incentive Option Scheme, which provides benefits to all employees, excluding directors.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model, further details of which are given in Note 9.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

(s) Share-based payment transactions (continued)

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Ferrowest Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Company's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The Statement of Comprehensive Income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(t) Issued Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

(u) Earnings per share

Basic earnings per share is calculated as net profit/loss attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit/loss attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

(v) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Ferrowest Limited.

Change in accounting policy

The Company has adopted AASB 8 Operating Segments from 1 July 2009. AASB 8 replaces AASB 114 Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in a change in the number of reportable segments presented by the Company as operating segments are reported in a manner that is consistent with internal reporting provided to the chief operating decision maker.

NOTE 2: REVENUE AND EXPENSES

	2010	2009
(a) Revenue	$	$
Interest received	3,769	4,801

(b) Expenses		
Depreciation of non-current assets		
Leasehold Improvements	10,397	15,260
Plant and Equipment	28,523	78,143
Amounts, received or due and receivable by auditors for:		
• audit or review services	26,300	24,800

NOTE 3: INCOME TAX

	2010	2009
(a) Income Tax Expense	$	$
The income tax expense for the year differs from the prima facie tax as follows:		
Loss for year	(1,076,646)	(1,617,074)
Prima facie income tax (benefit) @ 30%	(322,994)	(485,122)
Tax effect of non-deductible items	1,955	93,968
Deferred tax assets not brought to account	321,039	391,154
Total income tax expense	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 3: INCOME TAX (continued)

	2010	2009
(b) Deferred Tax Assets	$	$
The following deferred tax assets have not been brought to account as assets:		
Tax losses - revenue	1,517,721	1,249,329
Exploration	1,400,126	1,336,152
Temporary differences	172,418	119,771
	3,090,265	2,705,252

These amounts have not been brought to account as it is not probable that the Company will earn taxable income in the foreseeable future to allow the deferred tax assets to be utilised.

These losses are available to be used against future taxable income provided the Company continues to meet the utilisation requirements of the Income Tax Assessment Act.

NOTE 4: LOSS PER SHARE

	2010	2009
Basic loss per share (cents per share)	(1.45)	(2.5)

	2010	2009
	$	$
Earnings – Net loss for year	(1,076,646)	(1,617,074)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	74,273,955	63,632,557

Diluted earnings per share have not been calculated as there were no securities on issue which would be potential ordinary shares having a dilutive effect.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 5: CASH AND CASH EQUIVALENTS

	2010 $	2009 $
Cash at bank	176,287	142,476

Cash at bank earns interest at floating rate based on daily bank deposit rates.

(i) Reconciliation of loss for the year to net cash flow used in operating activities:

	2010 $	2009 $
Loss for the year	(1,076,646)	(1,617,074)
Non-Cash items		
Depreciation	40,909	93,403
Equity settled share based payment	129,578	313,226
Exploration expenditure written off	339,922	296,826
Interest expense settled in shares	85,186	3,698
Changes in assets and liabilities		
Receivables	6,637	31,521
Payables	123,976	364,108
GST recoverable	(10,112)	(11,106)
Net cash flows (used in) operating activities	(360,550)	(525,395)

(ii) Non-cash financing and investing activities

During the year the Company:

(a) issued 1,875,000 unlisted options with an exercise price of 60 cents per share and an expiry date of 30 June 2010 to holders of Convertible Notes in satisfaction of the Convertible Note Deed requirements.

(b) issued 48,565 fully paid ordinary shares at an issue price of 5.19 cents per share in satisfaction of Convertible Note interest.

(c) issued 9,578 fully paid ordinary shares at an issue price of 12.3 cents per share in satisfaction of Convertible Note interest.

There were no other non-cash financing and investing activities during the year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 6: OTHER ASSETS

	2010	2009
	$	$
Goods and Services Tax recoverable	27,493	12,913
Performance and rental bonds	83,917	83,917
Sundry debtors and prepayments	1,283	7,920
	112,693	104,750

Terms and conditions relating to the above financial instruments:

- Other assets are non-interest bearing and generally repayable within 30 days.
- Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

NOTE 7: PROPERTY, PLANT AND EQUIPMENT

	Option Fee – freehold land	Leasehold improve-ments	Plant and equipment	Total
	$	$	$	$
Year ended 30 June 2010				
At 1 July 2009, net of accumulated depreciation	150,000	12,513	118,400	280,913
Scrapped	-	-	(3,990)	(3,990)
Depreciation charge for the year	-	(10,396)	(43,347)	(53,743)
At 30 June 2010, net of accumulated depreciation	150,000	2,117	71,063	223,180
At 1 July 2009				
Cost	150,000	54,000	278,082	482,082
Accumulated depreciation	-	(41,487)	(159,682)	(201,169)
Net carrying amount	150,000	12,513	118,400	280,913
At 30 June 2010				
Cost	150,000	10,000	192,672	352,672
Accumulated depreciation	-	(7,883)	(121,609)	(129,492)
Net carrying amount	150,000	2,117	71,063	223,180

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

	Option Fee – freehold land	Leasehold improve-ments	Plant and equipment	Total
	$	$	$	$
Year ended 30 June 2009				
At 1 July 2008, net of accumulated depreciation	150,000	27,773	197,223	374,996
Scrapped	-	-	(680)	(680)
Depreciation charge for the year	-	(15,260)	(78,143)	(93,403)
At 30 June 2009, net of accumulated depreciation	150,000	12,513	118,400	280,913
At 1 July 2008				
Cost	150,000	54,000	278,762	482,762
Accumulated depreciation	-	(26,227)	(81,539)	(107,766)
Net carrying amount	150,000	27,773	197,223	374,996
At 30 June 2009				
Cost	150,000	54,000	278,082	482,082
Accumulated depreciation	-	(41,487)	(159,682)	(201,169)
Net carrying amount	150,000	12,513	118,400	280,913

NOTE 8: DEFERRED EXPLORATION EXPENDITURE

	2010	2009
	$	$
Exploration and evaluation phases:		
Expenditure brought forward	6,374,549	6,214,398
Expenditure incurred	540,688	456,977
Expenditure written off during year	(327,441)	(296,826)
Expenditure carried forward	6,587,796	6,374,549

The ultimate recoupment of the mining tenements, exploration and evaluation expenditure carried forward for areas of interest in the exploration and evaluation phases is dependent upon the successful development and commercial exploitation and/or sale of the relevant areas of interest, at amounts at least equal to book value.

NOTE 9: SHARE BASED PAYMENT PLANS

Employee Incentive Option Scheme

Employee options entitlements are staggered over three years from the commencement of employment with the Company. 40% of total options issued vest after 1 year from commencement of employment, 30% after 2 years and 30% after 3 years. The options are issued free of charge and the exercise price of each of the options will be based on the weighted average share price for the 5 ASX trading days prior to the employees commencement date with the Company and the expiry date in respect of each tranche of Options are 2 years after the relevant vesting date. There are no cash settlement alternatives.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

The expense of $6,515 is recognised in the Statement of Comprehensive Income in relation to share-based payments.

The following table illustrates the number (No.) and weighted average exercise prices of and movements in share options issued during the year:

	2010 No.	2010 Weighted average exercise price	2009 No.	2009 Weighted average exercise price
Outstanding at the beginning of the year	9,336,500	57 cent	3,531,000	20 cent
Vested during the year	225,000		-	
Expired or exercised during the year	(2,081,000)		5,805,500	
Outstanding at the end of the year	7,480,500	39 cents	9,336,500	57 cents
Exercisable at the end of the year	7,480,500		9,336,500	

The outstanding balance as at 30 June 2010 is represented by:

- 3,325,000 options over ordinary shares with a weighted average exercise price of 20 cents each, exercisable by 31 January 2011;
- 168,000 options over ordinary shares with a weighted average exercise price of 18 cents each, exercisable upon meeting the above conditions and until relevant expiry dates;
- 72,000 options over ordinary shares with a weighted average exercise price of 18.5 cents each, exercisable upon meeting the above conditions and until relevant expiry dates;
- 45,000 options over ordinary shares with a weighted average exercise price of 20 cents each, exercisable upon meeting the above conditions and until relevant expiry dates;
- 45,500 options over ordinary shares with a weighted average exercise price of 56.5 cents each, exercisable upon meeting the above conditions and until relevant expiry dates;
- 24,000 options over ordinary shares with a weighted average exercise price of 20.5 cents each, exercisable upon meeting the above conditions and until relevant expiry dates;
- 51,000 options over ordinary shares with a weighted average exercise price of 21 cents each, exercisable upon meeting the above conditions and until relevant expiry dates;
- 1,250,000 options over ordinary shares with a weighted average exercise price of 47 cents each, exercisable by 31 January 2011;
- 1,250,000 options over ordinary shares with a weighted average exercise price of 57 cents each, exercisable by 31 January 2011;
- 1,250,000 options over ordinary shares with a weighted average exercise price of 67 cents each, exercisable by 31 January 2011; and

The weighted average remaining contractual life for share options outstanding as at 30 June 2010 is between 0.1 and 3.1 years. The range of exercise prices for options outstanding at the end of the year was $0.18 and $0.67 (2009: $0.18 and $0.67).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 10: TRADE AND OTHER PAYABLES

	2010	2009
Current	$	$
Trade payables and accruals		
Other corporations	215,727	58,520
Director related entities	426,508	466,160
Employee benefits	289,008	159,870
	931,243	684,550

Terms and conditions relating to the above financial instruments:

- Trade creditors are non-interest bearing and are normally settled on 30 day terms.
- Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.
- $252,056 of the Employee benefits are deferred benefits owed to Managing Director, B. Manning.
- $87,611 of the Other corporations amount pertain to share subscriptions held on trust by the Company for a capital raising that was incomplete at the end of the reporting period.

NOTE 11: INTEREST BEARING LOANS AND BORROWINGS

	2010	2009
Convertible Note	$	$
Liability portion – current	381,870	-
Liability portion – non current	295,714	737,584
Equity portion	12,416	12,416
	690,000	750,000

The Company has issued 1,725,000 Convertible Notes with a face value of $690,000 pursuant to Convertible Note Agreements ("Convertible Notes") for the purpose of providing ongoing working capital, including meeting commitments on the Company's project.

The principle terms of the Convertible Notes are as follows:

(a) Maturity date of two years from the date of issue;

(b) Convertible into shares at $0.40 per share;

(c) One free option will be issued with each convertible note at an exercise price of 60 cents and expires 30 June 2012;

(d) Convertible, in whole or part, by:

- At the Noteholder's request, at any time during the Term; or
- At Ferrowest's option, only where the VWAP of the FWL Shares is $0.50 or greater for 10 consecutive trading days.

(e) Interest rate of 10% per annum payable at the noteholder's option either in cash or in shares issued at a 15% discount to the VWAP of the Company's shares when the interest falls due.;

(f) Unless converted or redeemed during the term, the Convertible Note will be redeemed at the maturity date at the face value of the Convertible Note or the proportion of such sum as remains to the credit of the Company's bank account, funds from the Convertible Note issue having been validly expended for the purposes outlined in the convertible note agreement;

(g) The Convertible Notes confer rights on the Convertible Noteholder as a creditor of the Company; and

(h) The Convertible Notes are unsecured.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 12: ISSUED CAPITAL AND RESERVES

	2010 $	2009 $
Issued and paid up capital		
Ordinary shares fully paid	10,091,862	9,015,624

(a) **Movement in ordinary shares on issue**	2010 Number	2010 $	2009 Number	2009 $
Balance at beginning of year	69,451,716	9,015,624	58,703,990	8,148,426
Issued on 15 September 2009 as placement for cash	4,300,000	387,000	-	-
Conversion of options on 23 October 2009	16,000	3,280	-	-
Conversion of options on 6 November 2009	48,000	8,880	-	-
Issued on 27 November 2009 as consideration for monies owed	2,355,299	187,062	-	-
Issued on 12 February 2010 as placement for cash	2,333,333	230,000	-	-
Conversion of options on 14 May 2010	9,000	2,250	-	-
Issued on 21 May 2010 as placement for cash	2,300,000	276,000	-	-
Issued on 21 May 2010 as consideration for convertible note interest	38,019	4,986	-	-
Issued on 5 September 2008 as placement for cash	-	-	2,208,333	265,000
Issued on 5 November 2008 as placement for cash	-	-	2,000,000	200,000
Issued on 5 February 2008 as placement for cash	-	-	4,000,000	200,000
Issued on 5 February 2008 as consideration for convertible note interest	-	-	58,143	3,698
Issued on 26 May 2009 under the Share Purchase Plan for cash	-	-	2,481,250	198,500
Transaction costs	-	(23,220)	-	-
Balance at end of year	80,851,367	10,091,862	69,451,716	9,015,624

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 12: ISSUED CAPITAL AND RESERVES

(b) **Share Options**

At the end of the year the following options over unissued ordinary shares were outstanding:

- 3,325,000 options expiring on 1 January 2011 at an exercise price of 20 cents each;
- 405,000 options expiring between 1 August 2010 and 19 November 2011 at exercise prices between 18 cents each and 56.5 cents each;
- 1,250,000 options expiring on 31 January 2011 at an exercise price of 47 cents each;
- 1,250,000 options expiring on 31 January 2011 at an exercise price of 57 cents each;
- 1,250,000 options expiring on 31 January 2011 at an exercise price of 67 cents each; and

(c) **Terms and conditions of contributed equity**

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

	Note	2010 $	2009 $
Reserves			
Share-based payments reserve		310,422	395,992
Option issue reserve		-	987,916
Option premium on convertible note	11	12,416	12,416
		322,838	1,396,324

(a) **Movement in reserves**

		2010 $	2009 $
Share-based payments reserve			
Balance at beginning of year		395,992	82,766
Share based payment		6,515	313,226
Transfer on expiry of options		(92,085)	-
Balance at end of year		310,422	395,992
Option issue reserve			
Balance at beginning of year		987,916	987,916
Transfer on expiry of options		(987,916)	-
Balance at end of year		-	987,916
Option premium on convertible notes			
Balance at beginning of year		12,416	66,741
Issue of convertible notes		-	8,232
Derecognition of equity component		-	(62,557)
Balance at end of year		12,416	12,416

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 12: ISSUED CAPITAL AND RESERVES

(b) **Nature and purpose of reserve**

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued as part of remuneration of directors, employees and consultants.

Option issue reserve

The option issue reserve is used to accumulate proceeds from the issuing of share options.

Option premium on convertible notes

Option premium on convertible notes represent the equity portion of 1,750,000 10% convertible notes. Each note entitles the holder to convert to one ordinary share at a cost of 40 cents per share. Refer Note 11 for terms of conversion and unconverted notes.

NOTE 13: COMMITMENTS

Exploration Commitments

The Company has certain obligations to perform minimum exploration work and to expend minimum amounts of money on such work on mining tenements. These obligations may be varied from time to time subject to approval and are expected to be fulfilled in the normal course of the operations of the Company. These commitments have not been provided for in the accounts. Due to the nature of the Company's operations in exploring and evaluating areas of interest, it is difficult to accurately forecast the nature and amount of future expenditure beyond the next year. Expenditure may be reduced by seeking exemption from individual commitments, by relinquishment of tenure or by new joint venture arrangements. Expenditure may be increased when new tenements are granted or joint venture agreements amended The minimum expenditure commitment on the tenements is:

	2010 $	2009 $
Within one year	440,300	440,300

NOTE 14: CONTINGENT LIABILITIES

It is possible that native title, as defined in the Native Title Act 1993, might exist over land in which the Company has an interest. It is impossible at this stage to quantify the impact (if any) that the existence of native title may have on the operations of the Company. However, at the date of these accounts, the Directors are aware that applications for native title claims have been accepted by the Native Title Tribunal over tenements held by the Company.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 15: RELATED PARTY TRANSACTIONS

(a) Details of Key Management Personnel

(i) Directors in office during the financial year were:

Non Executive Chairman:	Mr RH Duffin
Executive Directors:	Mr BL Manning Mr GG Johnston
Non Executive Directors:	Mr BE Wyatt Mr PJ Evers

(ii) Executives

Chief Financial Officer and Company Secretary:	Mr DJ Bredenkamp

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.

(d) Shareholdings of Key Management Personnel

30 June 2010

	Balance 01/07/09	**Received as Remuneration**	**Options Exercised**	**Net Change Other****	**Balance 30/06/10**
RH Duffin	1,300,000	-	-	1,315,131	2,615,131
BL Manning	2,254,450	-	-	284,199	2,538,649
BE Wyatt	4,365,000	-	-	240,677	4,605,677
PJ Evers	4,423,750	-	-	415,517	4,839,267
GG Johnston	4,717,500	-	-	277,028	4,994,528
DJ Bredenkamp	7,000	-	-	26,945	33,945

** Shares acquired through normal on-market purchase or as settlement for interest due on convertible notes (in accordance with shareholder approval granted at the 2009 Annual General Meeting) or as settlement for fees due for services provided to the company (in accordance with shareholder approval granted at the 2009 Annual General Meeting).

30 June 2009

	Balance 01/07/08	**Received as Remuneration**	**Options Exercised**	**Net Change Other**	**Balance 30/06/09**
RH Duffin	1,250,000	-	-	50,000	1,300,000
BL Manning	2,166,500	-	-	87,950	2,254,450
BE Wyatt	4,365,000	-	-	-	4,365,000
PJ Evers	4,345,000	-	-	78,750	4,423,750
GG Johnston	4,615,800	-	-	101,700	4,717,500
DJ Bredenkamp	10,000	-	-	(3,000)	7,000

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 15: RELATED PARTY TRANSACTIONS

All equity transactions with key management personnel have been entered into under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length.

(e) Option holdings of Key Management Personnel

30 June 2010

	Balance 01/07/09	Received as Remuneration	Options Exercised	Net Change Other**	Balance 30/06/10	Vested as at end of period Total	Exercisable	Not Exercisable
RH Duffin	5,400,000	-	-	(975,000)	4,425,000	4,425,000	4,425,000	-
BL Manning	1,716,500	-	-	(641,000)	1,075,000	1,075,000	1,075,000	-
BE Wyatt	1,400,000	-	-	(325,000)	1,075,000	1,075,000	1,075,000	-
PJ Evers	3,622,500	-	-	(2,547,500)	1,075,000	1,075,000	1,075,000	
GG Johnston	3,842,500	-	-	(2,517,500)	1,325,000	1,325,000	1,325,000	-
DJ Bredenkamp	120,000	-	-	-	120,000	-	-	-

** All changes were the result of options expiring during the year.

30 June 2009

	Balance 01/07/08	Received as Remuneration	Options Exercised	Net Change Other	Balance 30/06/08	Vested as at end of period Total	Exercisable	Not Exercisable
RH Duffin	3,950,000	750,000	-	700,000	5,400,000	5,400,000	5,400,000	-
BL Manning	278,000	750,000	-	688,500	1,716,500	1,716,500	1,716,500	-
BE Wyatt	-	750,000	-	650,000	1,400,000	1,400,000	1,400,000	-
PJ Evers	2,222,500	750,000	-	650,000	3,622,500	3,622,500	3,622,500	
GG Johnston	2,317,500	750,000	-	775,000	3,842,500	3,842,500	3,842,500	-
DJ Bredenkamp	-	-	-	120,000	120,000	120,000	120,000	-

All equity transactions with key management personnel have been entered into under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length.

NOTE 16: FINANCIAL REPORTING BY SEGMENTS

The Board of Directors for Ferrowest Limited reviews internal reports prepared and strategic decisions of the Company are determined upon analysis of these internal reports. The Company operates predominantly in one business and geographical segment being mineral exploration in Australia. Accordingly, under the 'management approach' outlined one operating segment has been identified and no further disclosure is required in the notes to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 17: FINANCIAL INSTRUMENTS

Capital risk management

Prudent capital risk management implies maintaining sufficient cash and marketable securities to ensure continuity of tenure to exploration assets and to be able to conduct the Company's business in an orderly and professional manner. The Board monitors its future capital requirements on a regular basis and will when appropriate consider the need for raising additional equity capital.

The capital structure of the Company consists of debt, which includes borrowings disclosed in note 11 and equity attributable to equity holders comprising capital, reserves and retained earnings as disclosed in note 12.

Gearing ratio

The Company uses its gearing ratio to manage its capital. The ratio is monitored by the Board and management and is measured as debt to equity. Based on recommendation of management and the Board, the Company will balance its overall capital structure through new share issues as the raising of funds under the on-going Convertible Note raising.

The gearing ratio at year end was a follows:

	2010	2009
Current	$	$
Debt (i)	677,584	737,584
Equity (ii)	5,486,661	5,480,554
Net debt to equity ratio	12.35%	13.46%

(i) Debt is defined as long term borrowings as detailed in note 11.

(ii) Equity includes all capital and reserves.

Interest rate risk

The Company's exposure to risks of changes in market interest rates relates primarily to the Company's cash balances. The Company constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing positions and the mix of fixed and variable interest rates. As the company has no variable rate interest bearing borrowings its exposure to interest rate movements is limited to the amount of interest income it can potentially earn on surplus cash deposits. The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance date.

At balance date, the following table details the Company's expected maturity for its non-derivative financial assets. These have been drawn up based on undiscounted contractual maturities on the financial instruments including interest that will be earned on these instruments.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 17: FINANCIAL INSTRUMENTS

	2010 $	2009 $
Financial Assets		
Cash and cash equivalents (interest-bearing accounts)	**177,571**	**142,476**
Net exposure	**177,751**	**142,476**

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance date.

At 30 June 2010, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit/loss and equity relating to financial assets of the Company would have been affected as follows:

Judgements of reasonably possible movements:		
Post tax profit/(loss) – higher / (lower)		
+ 1.0%	**1,776**	1,425
- 1.0%	**(1,776)**	(1,425)
Equity – higher / (lower)		
+ 1.0%	**1,776**	1,425
- 1.0%	**(1,776)**	(1,425)

Financial risk management

The Company's financial instruments consist mainly of deposits with banks, accounts receivable and payable.

The Company does not speculate in the trading of derivative instruments. The main risks the Company is exposed to through its financial instruments are interest rate risk and liquidity risk.

The Company manages interest rate and liquidity risk by monitoring immediate and forecast cash requirements and ensuring adequate cash reserves are maintained.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest rate risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. These are based on the undiscounted cash flows of financial liabilities based on the earliest date on which the company can be required to pay. The table includes both interest and principal cash flows.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 17: FINANCIAL INSTRUMENTS

	Weighted average effective interest rate %	Less than 1 month	1 – 3 months	3 months – 1 year	1 – 5 years	5+ years
2010						
Non-interest bearing	-	-	931,243	-	-	-
Fixed interest rate instruments	10	-	-	-	690,000	-
		-	931,243	-	690,000	-
2009						
Non-interest bearing	-	-	684,550	-	-	-
Fixed interest rate instruments	10	-	-	-	750,000	-
		-	684,550	-	750,000	-

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted the policy of dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company measures credit risk on a fair value basis. The Company does not have any significant credit risk exposure to a single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Company's maximum exposure to credit risk without taking account of the fair value of any collateral or other security obtained.

Net fair value

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities approximates their carrying value.

The net fair value of financial assets and financial liabilities is based on upon market prices where a market exists or be discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

NOTE 18: EVENTS SUBSEQUENT TO YEAR END

Subsequent to the end of the reporting period the following activities occurred:

- The Company raised $134,457.80 through a non-renounceable option issue to option holders. A total of 26,891,560 new options were issued with an exercise price of 25 cents and an expiry date of 28 June 2012. The new options have been quoted on the Australian Securities Exchange with the code FWLOA. The funds will be used for the Company's ongoing exploration activities and working capital.

There are no other matters or circumstances that have arisen since 30 June 2010 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial years.

DIRECTORS' DECLARATION

In the opinion of the directors:

a) The financial statements and notes of the Company are in accordance with the *Corporations Act 2001*, including:

   i) giving a true and fair view of the Company's financial position as at 30 June 2010 and of its performance for the year then ended; and

   ii) complying with Accounting Standards and the Corporations Regulations 2001;

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Account Standards Board.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2010.

This declaration is signed in accordance with a resolution of the Board of Directors.

Bob Duffin
Chairman
PERTH, Western Australia
20 September 2010

HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of
FERROWEST LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Ferrowest Limited, which comprises the statement of financial position as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Ferrowest Limited, as set out on pages 23 to 53.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the 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.

In Note 1(c), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial statements of Ferrowest Limited comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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HLB Mann Judd

Accountants | Business and Financial Advisers

Independence
In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion
In our opinion:

(a) the financial report of Ferrowest Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1(c).

Continuation as a Going Concern

Without qualifying our opinion, we draw attention to note 1(a) to the financial report which indicates that the Company will be required to raise additional equity or secure other funding to enable it to continue as a going concern. If the Company is unable to source future equity raising and/or conclude the other agreements as detailed in note 1(a), 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 it liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report
We have audited the Remuneration Report included in pages 11 to 15 of the directors' report for the year ended 30 June 2010.The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion
In our opinion the Remuneration Report of Ferrowest Limited for the year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Norman Glad

N G NEILL
Partner

Perth, Western Australia
20 September 2010

SUPPLEMENTARY INFORMATION

The shareholder information set out below was applicable as at 14 September 2010

Distribution of Shareholders - Fully Paid Ordinary Shares

Number of Holders	861
Holders of less than a marketable parcel	199
Number of holders in the following distribution categories	
1 – 1000	26
1,001 – 5000	163
5,001 – 10,000	194
10,001 – 100,000	381
100,001 and over	97

Twenty Largest Shareholders

The names of the twenty largest shareholders are as follows:

Rank	Shareholder Name	Holding	%
1	De Belle S & Sheehan J	6,208,333	7.68%
2	Comet Resources Limited	5,682,500	7.03%
3	Philip James Evers	4,735,834	5.86%
4	Graeme & Margaret Johnston <The G&M Johnston Superfund>	4,575,000	5.66%
5	Grenache Pty Ltd	4,325,000	5.35%
6	Alcardo Investments Limited	4,247,390	5.25%
7	National Nominees Limited	2,970,559	3.67%
8	Robert David Evers	2,200,000	2.72%
9	Irrawaddy Investments Pty Ltd <Duffin Family A/C>	2,196,637	2.72%
10	Eugenia Manning	1,940,645	2.40%
11	Brett Manning	1,913,155	2.37%
12	Nikolais Zuks	1,300,000	1.61%
13	Martin Place Securities Nominees Pty Ltd	968,000	1.20%
14	Sadgrove's Inv PL	855,818	1.06%
15	Corliss Craig	639,000	0.79%
16	Forty Traders Pty Ltd	562,500	0.70%
17	Michael & J E Cassidy	560,998	0.69%
18	Martin Place Securities Nominees Pty Ltd - Crown Credit Corp	557,000	0.69%
19	Bruce & Regina Bell	522,222	0.65%
20	Antony Carlton	501,000	0.62%
		47,461,591	**58.72%**

Substantial Shareholders

Substantial shareholders in the Company as disclosed in the substantial shareholder notices given to the Company are:

	No. of Shares
Comet Resources Limited	7,000,000
S de Belle	6,208,333
Philip James Evers	4,695,834
Graeme & Margaret Johnston	4,816,034
Grenache Pty Ltd	4,325,000

Distribution of Option Holders - Fully Paid Options

Number of Holders	129
Number of holders in the following distribution categories	
1 – 1000	1
1,001 – 5000	10
5,001 – 10,000	2
10,001 – 100,000	65
100,001 and over	51

Twenty Largest Option holders

The names of the twenty largest option holders are as follows:

Rank	Shareholder Name	Holding	%
1	Johnston Graeme + M	2,287,500	8.51%
2	Evers Philip James	2,167,500	8.06%
3	National Nominees Ltd	1,625,000	6.04%
4	Hipete Pty Ltd	1,533,500	5.70%
5	Cassidy Michael + J E	1,402,000	5.21%
6	Hipete Pty Ltd	1,049,104	3.90%
7	Tuxedo Investments Pty Ltd	1,000,000	3.72%
8	Martin Place Securities Staff S/F	977,500	3.63%
9	Martin Place Securities Nominees Pty Ltd	800,000	2.97%
10	Wendy Teresa Heintz	580,000	2.16%
11	Jarrett Declan	558,000	2.08%
12	Andrew Sargon	500,000	1.86%
13	Irrawaddy Investments Pty Ltd	500,000	1.86%
14	Aloizos John + Muriel p	495,000	1.84%
15	Goffacan Pty Ltd	480,000	1.78%
16	Libbie Pty Ltd	436,450	1.62%
17	Carlton Antony	433,538	1.61%
18	Burford Matthew David	379,150	1.41%
19	Andromeda Entertainment Pty Ltd	370,247	1.38%
20	Hipete Pty Ltd	350,000	1.30%
	Total Top 20 Holders	**17,924,489**	**66.64%**

Unlisted Options

Details of unlisted options are as follows:

	No. of Options	No. of Holders
Options exercisable at 20 cents on or before 1 January 2011	3,325,000	1
Options expiring between 1 August 2010 and 6 August 2013 at exercise prices between 18 cents each and 56.5 cents each	501,500	6
Options exercisable at 47 cents on or before 31 January 2011	1,250,000	5
Options exercisable at 57 cents on or before 31 January 2011	1,250,000	5
Options exercisable at 67 cents on or before 31 January 2011	1,250,000	5

Option Holders of more than 20% of this class:

1.	Irrawaddy Investments Pty Ltd	4,075,000

Restricted Securities

There are no Restricted Securities.

Voting Rights

Shares

On a show of hands every member present in person or by proxy or attorney or being a corporation by its authorised representative who is present in person or by proxy, shall have one vote for every fully paid share of which he is a holder.

Options

Options have no voting rights until such options are exercised as fully paid ordinary shares.

On-market Buy-back

Currently there is no on-market buy-back of the Company's securities.

Tenement Schedule

Tenement	Status	Area	Minimum Expenditure	Ownership
P59/1860	Granted	47ha	$2,000	100% Ferrowest Limited
E59/1097	Granted	70 blocks	$105,000	100% Ferrowest Limited
E59/1348	Granted	12 blocks	$20,000	100% Ferrowest Limited
E59/1400	Granted	12 blocks	$20,000	100% Ferrowest Limited
M59/525	Granted	92ha	$10,000	100% Ferrowest Limited
M59/634	Granted	906ha	$90,800	100% Ferrowest Limited
M59/635	Granted	774ha	$77,800	100% Ferrowest Limited
M59/636	Granted	949ha	$94,700	100% Ferrowest Limited
M59/637	Granted	200ha	$20,000	100% Ferrowest Limited
E20/744	Application	20 blocks	N/A	100% Ferrowest Limited
M59/740	Application	2,129ha	N/A	100% Ferrowest Limited

Note: 1 block is approximately 300ha at the latitude of the tenements