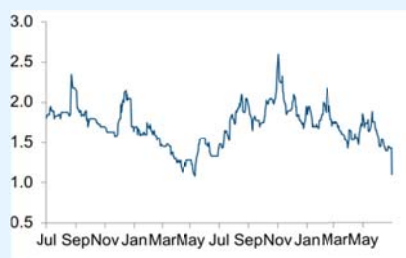


31 July 2014

Ticker	FRX	
Price	1.1p	
Target Price	8.3p	
Upside	655.0%	
Market Cap	£10.3m	
Index	FTSE AIM All Share	
Sector	Mining	
Net Cash	£1.1m	
Shares in Issue	933.8m	
Next Results	Interims August 2014	
What's changed	From	To
Adj. EPS (FD)	-0.2p	n/c
Recommendation		
Target Price	10.4p	8.3p

Share Price Performance



Source: Thomson Reuters

%	1M	3M	12M
Actual	-30.4	-28.1	-17.3
Relative	-30.6	-28.7	-20.2

Company Description

Evaluating iron ore and manganese projects in South Africa, Togo and Gabon.

Analyst:

Martin Potts 020 7220 0544
mpotts@finncap.com

Sales:

Simon Johnson 020 7220 0525
sjohnson@finncap.com
Chris Jeffrey 020 7220 0524
cjeffrey@finncap.com
Rhys Williams 020 7220 0522
rwilliams@finncap.com
Tony Quirke 020 7220 0517
tquirke@finncap.com

Sales Traders:

STX 020 7220 0531
73240

Iron and manganese in Africa

CORP

Ferrex offers exposure to a portfolio of iron and manganese exploration and development projects in Gabon, Togo and South Africa. The current principal focus of interest is the Mebaga iron ore project in Gabon. Anglo American recently successfully completed legal and due diligence on the project, but because of a change in corporate strategy decided not to complete the proposed funding transaction. Iron ore prices are currently going through a period of weakness, driven primarily by faltering demand in China. As a result, we have slightly reduced our target price to 8.3p.

► Our valuation is based on DCF analysis of the three main projects, modified by entirely subjective risk discounts to arrive at our target price. Our unrisks value for Ferrex is now £201.8m, or 21.5p per share, some 20x the current share price.

► We expect that Ferrex will now be opening up the Mebaga project to other potential investors.

Summary of valuation of Ferrex's assets (risk discounted basis)

	Undiscounted valuation (p/share)	Risk discount	Discounted valuation (p/share)
Mebaga	11.2	70%	3.4
Nayega	1.8	40%	1.2
Malelane	7.9	60%	3.2
Leinster	0.5		0.6
Balance sheet	0.1		0.1
Total	21.5		8.3

Source: finncap

Year ending September (£m)

	2013A	2014E	2015E	2016E
Data				
Sales (£m)	0.0	0.0	0.0	0.0
Adj EBITDA (£m)	-1.7	-1.5	-1.5	-1.5
Adj PBT (£m)	-1.7	-1.5	-1.5	-1.5
Tax rate (%)	0	0	0	0
Adj EPS (FD) (p)	-0.2	-0.2	-0.2	-0.2
DPS (p)	0.0	0.0	0.0	0.0
Ratios				
EV/Sales (x)	n/a	n/a	n/a	n/a
EV/EBITDA (x)	n/a	n/a	n/a	n/a
P/E (x)	n/a	n/a	n/a	n/a
Yield (%)	0.0	0.0	0.0	0.0
Cash flow yield (%)	-23.6	-16.6	-160.6	-24.3
EPS growth (%)	13.2	24.9	0.0	0.0

Key Financials

Income Statement					Cash Flow				
Year ending September (£m)	2013A	2014E	2015E	2016E	Year ending September (£m)	2013A	2014E	2015E	2016E
Sales	0.0	0.0	0.0	0.0	EBITDA	-1.7	-1.5	-1.5	-1.5
Gross profit	0.0	0.0	0.0	0.0	Net change in working capital	0.0	0.2	0.4	0.4
Operating expenses	-1.7	-1.5	-1.5	-1.5	Other items	0.3	0.1	0.1	0.1
Adjusted EBITDA	-1.7	-1.5	-1.5	-1.5	Operating cash flow	-1.4	-1.2	-1.0	-1.0
Depreciation/Amortisation	0.0	0.0	0.0	0.0	Cash interest	0.0	0.0	0.0	0.0
Adjusted EBIT	-1.7	-1.5	-1.5	-1.5	Tax paid	0.0	0.0	0.0	0.0
Associates/Other	0.0	0.0	0.0	0.0	Capex	-1.0	-0.5	-15.5	-1.5
Net interest	0.0	0.0	0.0	0.0	Free cash flow	-2.4	-1.7	-16.5	-2.5
Adjusted PBT	-1.7	-1.5	-1.5	-1.5	Disposals	0.0	0.0	0.0	0.0
Adjustments	0.0	0.0	0.0	0.0	Acquisitions	0.0	0.0	0.0	0.0
Reported PBT	-1.7	-1.5	-1.5	-1.5	Dividends	0.0	0.0	0.0	0.0
Taxation	0.0	0.0	0.0	0.0	Other	0.0	0.0	10.0	0.0
<i>Tax rate (%)</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	Issue of share capital/(Buyback)	2.5	2.0	7.0	6.0
Reported earnings	-1.6	-1.4	-1.4	-1.4	Net Change in cash flow	0.1	0.3	0.5	3.5
Average no.shares (FD)	765.2	933.8	933.8	933.8	Opening net (debt)/cash	0.2	0.3	0.6	1.1
Adj. EPS (FD) (p)	-0.2	-0.2	-0.2	-0.2	Closing net (debt)/cash	0.3	0.6	1.1	4.6
DPS (p)	0.0	0.0	0.0	0.0					

Balance Sheet					Ratio Analysis				
Year ending September (£m)	2013A	2014E	2015E	2016E	Year ending September	2013A	2014E	2015E	2016E
Tangible assets	0.1	0.6	16.1	17.6	Growth				
Goodwill	0.0	0.0	0.0	0.0	Revenue growth (%)	n/a	n/a	n/a	n/a
Other intangible	0.0	0.0	0.0	0.0	EBITDA growth (%)	11.6	10.4	0.0	0.0
Other	5.0	0.0	0.0	0.0	EPS growth (%)	13.2	24.9	0.0	0.0
Non current assets	5.1	0.6	16.1	17.6	DPS growth (%)	n/a	n/a	n/a	n/a
Inventories	0.0	0.0	0.0	0.0	Returns				
Trade receivables	0.1	0.0	0.0	0.0	Gross margin (%)	n/a	n/a	n/a	n/a
Cash	0.2	0.5	1.0	4.5	EBITDA margin (%)	n/a	n/a	n/a	n/a
Other	0.0	0.0	0.0	0.0	EBIT margin (%)	n/a	n/a	n/a	n/a
Current assets	0.3	0.5	1.0	4.5	RoE (%)	n/a	n/a	n/a	n/a
Trade payables	-0.3	0.0	0.0	0.0	RoCE (%)	n/a	n/a	n/a	n/a
Other current liabilities	0.0	0.0	0.0	0.0	Liquidity				
Short term debt	0.0	0.0	0.0	0.0	Net debt/equity (%)	n/a	n/a	n/a	n/a
Net current assets	0.0	0.5	1.0	4.5	Net debt/EBITDA (x)	0.2	0.4	0.7	3.1
Long term debt	0.0	0.0	10.0	10.0	Interest cover (x)	nm	nm	nm	nm
Pension	0.0	0.0	0.0	0.0	Net working capital to sales (%)	n/a	n/a	n/a	n/a
Other/Minorities	0.0	0.0	0.0	0.0	Cash conversion (%)	144.6	113.3	1,100.	166.7
Net assets	5.2	1.1	27.1	32.1				0	
<i>Net working capital</i>	<i>-0.2</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	Dividend cover (x)	n/a	n/a	n/a	n/a
<i>NAV per share (p)</i>	<i>0.7</i>	<i>0.1</i>	<i>2.9</i>	<i>3.4</i>					
<i>NTA per share (p)</i>	<i>0.7</i>	<i>0.1</i>	<i>2.9</i>	<i>3.4</i>					

Investment case

Ferrex offers exposure to a portfolio of iron and manganese exploration and development projects in Africa. By far the most important in terms of potential near-term value is the Mebaga iron ore project in Gabon. The fact that Anglo American decided not to pursue its previously proposed transaction to invest in Mebaga was, we suspect, driven by its recent change in corporate strategy to focus on quantifiable projects and to move away from early-stage and greenfield exploration. Anglo American did successfully complete the technical and legal due diligence on the project.

Ferrex can now return to the immediate priority of completing the permitting process for the Nayega manganese project in Togo. Assuming this can be completed by the end of 2014, it could be in production and generating cash by late 2015.

The opportunity to bring the Nayega manganese project rapidly into profitable production would free Ferrex from having to depend on the market to fund corporate overheads and basic levels of exploration.

We have used a combination of DCF analysis of the principal projects and a nominal value for the other assets to set a target price of 8.3p. This is substantially higher than the present price of the stock but is in itself a substantial discount to the potential value of Ferrex's portfolio. Our unrisksed valuation of 21.5p is some 20x the current price of the stock. We see considerable longer-term upside beyond our current target price, driven by the potential size of Mebaga and the progressive de-risking of the various projects.

Valuation

We have derived a valuation for Ferrex using the DCF method for the more advanced projects and a nominal value for the other assets. We have then applied a subjective risk discount where appropriate to arrive at a target price. We calculate an unrisksed value for Ferrex of £201.8m, equivalent to 21.5p per share. After applying risk discounts, we arrive at a target price of 8.3p per share.

We have set a base date of 1 January 2014 for the DCF calculation.

The most recent balance sheet summary (30 September 2013) shows that the company then had net current assets of £38,000 only. However, it subsequently raised £0.7m in the market and a further £1.6m in a placing and equity swap with YA Global Master Fund. Of the latter, around £1.1m is immediately available. We assign a value of £1.5m to the balance sheet.

Figure 1: Summary of valuation of Ferrex's assets (unrisksed basis)

	£m	p/share
Mebaga	104.8	11.2
Nayega	16.9	1.8
Malelane	73.6	7.9
Leinster	5.0	0.5
Balance Sheet	1.5	0.1
Total	201.8	21.5

Source: finnCap

Target price

We have applied risk discounts to the unrisksed valuation given above in order to generate a target price. The discounts represent a combination of project risk and country risk.

In our view, the three countries that Ferrex has assets in are all relatively low risk in terms of corruption and stability in the context of Africa. As such, we do not consider that any specific country risk discounts are required.

Our model for Mebaga is conceptual and not based on any specific published studies. However, our capital and operating cost estimates are within the range for similar DSO iron projects. We have assigned a 70% risk discount to reflect this. This discount can be reduced when initial resource numbers have been calculated and published. In particular, we see no major issues with permitting or with transport (these being the two major issues that impact many African iron ore projects). Gabon is actively trying to attract mining companies to develop its iron ore potential, in part to diversify away from being an oil-dependent economy. We currently consider Mebaga to be Ferrex's most important project in terms of value.

We have increased the risk discount that we apply to Malelane in South Africa from 50% to 60%. This is because South Africa is becoming generally more difficult as a place in which to obtain permission for new mining projects, and given the project's proximity to the Kruger National Park, permitting will be a

major issue. In particular, we note the problems that some of the proposed new coal mines in the far north of the country have run into in terms of permitting.

We have increased the discount applied to Nayega from 30% to 40% as the process of obtaining what should have been a very straightforward permit to mine appears to be seriously stalled. However, the unrisks valuation has increased slightly because of the opportunity to “high grade” the initial years of production.

We have assigned a nominal value of £5m (0.6p per share) to Leinster as that project is still some way short of a scoping study and is several years away from a possible transport solution.

Figure 2: Summary of valuation of Ferrex’s assets (risk discounted basis)

	Undiscounted valuation (p/share)	Risk discount	Discounted valuation (p/share)
Mebaga	11.2	70%	3.4
Nayega	1.8	40%	1.1
Malelane	7.9	60%	3.2
Leinster	0.5		0.5
Balance sheet	0.1		0.1
Total	21.5		8.3

Source: finnCap

Mebaga project valuation

We have valued the Malelane project using DCF methodology, though we should point out that the model is based on our estimates in terms of input numbers, hence the heavy risk discount.

The principal inputs to our model are as follows:

- Assumed “reserve” of 100 million tonnes grading 60% iron.
- Mine capacity of 2.0 million tonnes per year of Direct Shipping Ore.
- Capex of US\$125m.
- Operating cost of US\$50.00 per tonne of ore FOB Owendo (Gabon) basis.
- Tax rate of 35% after recovery of capex.
- No royalty.
- DSO price of US\$80/t FOB Owendo.
- Ferrex will hold an effective 100% interest in the distributable cash flow until capital costs are recovered; thereafter it will hold an 82% interest, with local entities holding the remainder.

We have assumed that construction starts in the year ended September 2016 and that production starts in the year to September 2017, building to full capacity within a year.

The first few years of our DCF model are summarised in the following table:

Figure 3: Summary of Mebaga DCF model (US\$m and 100% basis)

Year to September		2016E	2017E	2018E	2019E	2020E
Ore shipped	t'000	0	2,000	2,000	2,000	2,000
Revenue	US\$m	0	160.0	160.0	160.0	160.0
Operating cost	US\$m	0	(100.0)	(100.0)	(100.0)	(100.0)
Cash profit	US\$m	0	60.0	60.0	60.0	60.0
Capex	US\$m	(125.0)	0	0	0	0
Royalty	US\$m	0	0	0	0	0
Tax	US\$m	0	0	0	(19.3)	(21.0)
Cash flow	US\$m	(125.0)	60.0	60.0	40.8	39.0

Source: finnCap

Combining these inputs into a DCF model gives the following table of unrisks valuations at various discount rates:

Figure 4: Mebaga valuation (£1.00 = US\$1.65)

DCF discount rate	£m	Pence/share
0%	288.6	30.9
5%	151.2	16.2
8%	104.8	11.2
10%	82.5	8.8
15%	45.8	4.9

Source: finnCap

Nayega project valuation

We have valued the Nayega project using the DCF method. We have based the model on the scoping study and updated resource statement.

The principal inputs to our model are as follows:

- Measured and inferred mineral resource of 11.0 million tonnes grading 13.1% manganese. Within this is 2.0 million tonnes grading 17.1% manganese, which we assume is mined first.
- Mine and process plant capacity of 750,000 tonnes per year to yield around 175,000 tonnes of concentrate.
- Manganese recovery into concentrate of 60%.
- Capex of US\$15m.
- Operating cost of US\$9.00 per tonne of ore mined and US\$80.00 per tonne of concentrate on a CIF China basis.
- Tax rate of 27% after recovery of capex.
- No royalty.
- Concentrate price of US\$171/t CIF China. This is derived from a manganese price of US\$4.50/dmtu (dry metric tonne unit) and a concentrate grade of 38%.
- Ferrex will hold an effective 100% interest in the distributable cash flow until capital costs are recovered; thereafter it will hold an 85% interest, with the Togo state holding the remainder.

We have assumed that construction starts in late 2014 or early 2015 and that production starts in the year to September 2015, building immediately to full capacity.

The first few years of our DCF model are summarised in the following table:

Figure 5: Summary of Nayega DCF model (US\$m and 100% basis)						
Year to September		2015E	2016E	2017E	2018E	2019E
Ore to plant	t'000	500.0	750.0	750.0	750.0	750.0
Concentrate produced	t'000	135.0	202.5	202.5	144.5	144.5
Revenue	US\$m	23.1	34.6	34.6	24.7	24.7
Operating cost	US\$m	(15.3)	(23.0)	(23.0)	(18.3)	(18.3)
Cash profit	US\$m	7.8	11.7	11.7	6.4	6.4
Capex	US\$m	(15.0)	0	0	0	0
Royalty	US\$m	0	0	0	0	0
Tax	US\$m	0	(1.2)	(2.2)	(2.1)	(0.6)
Cash flow	US\$m	(8.4)	9.5	9.6	5.8	4.7

Source: finnCap

Combining these inputs into a DCF model gives the following table of unrisks valuations at various discount rates:

Figure 6: Nayega valuation (£1.00 = US\$1.65)		
DCF discount rate	£m	Pence/share
0%	34.2	3.7
5%	21.7	2.3
8%	16.9	1.8
10%	14.4	1.5
15%	9.9	1.1

Source: finnCap

Malelane project valuation

We have valued the Malelane project using the DCF method. We have based the model on the scoping study as amended by the metallurgical and cost revisions.

The principal inputs to our model are as follows:

- Inferred mineral resource of 139 million tonnes grading 37% iron. However, the ore grade to the plant will be 40.2% after high grading.
- Mine and process plant capacity of 4.5 million tonnes per year to yield around 1.8 million tonnes of concentrate.
- Iron recovery into concentrate of 58%.
- Capex of US\$139m.
- Operating cost average of US\$53.51 per tonne of concentrate on a FOB Maputo basis.
- Tax rate of 28% after recovery of capex.
- Royalty related to profitability but averaging 3.9%.
- Concentrate price of US\$85/t FOB Maputo.

- Ferrex will hold an effective 100% interest in the distributable cash flow until capital costs are recovered; thereafter it will hold a 74% interest, with BEE entities holding the remainder.

We have assumed that construction starts in the year ended September 2016 and that production starts in the year to September 2017, building to full capacity within a year.

The first few years of our DCF model are summarised in the following table:

Figure 7: Summary of Malelane DCF model (US\$m and 100% basis)						
Year to September		2016E	2017E	2018E	2019E	2020E
Ore to plant	t'000	0	2,000	4,500	4,500	4,500
Concentrate produced	t'000	0	818	1,841	1,841	1,841
Revenue	US\$m	0	69.5	156.5	156.5	156.5
Operating cost	US\$m	0	(36.8)	(84.7)	(86.5)	(92.0)
Cash profit	US\$m	0	32.7	71.8	69.9	64.4
Capex	US\$m	(100.0)	(39.0)	0	0	0
Royalty	US\$m	0	(3.0)	(6.5)	(6.4)	(5.9)
Tax	US\$m	0	0	0	(8.1)	(16.4)
Cash flow	US\$m	(100.0)	(9.2)	65.3	55.4	42.1

Source: finnCap

Combining these inputs into a DCF model gives the following table of unrisks valuations at various discount rates:

Figure 8: Malelane valuation (£1.00 = US\$1.65)		
DCF discount rate	£m	Pence/share
0%	206.8	22.2
5%	108.0	11.6
8%	73.6	7.9
10%	56.9	6.1
15%	29.0	3.1

Source: finnCap

Background

Ferrex was first incorporated in the UK in August 2010. It has a wholly-owned subsidiary based in Guernsey that in turn owns the interests in the various mining projects. The company was floated on AIM in July 2011 at which time it raised £2.0m gross. A further £1.0m was raised in July 2012, £2.0m was raised in January 2013, and £0.7m was raised in December 2013.

As its name suggests, the company is focused on developing mines that will supply raw materials to the steelmaking industry. It holds the rights to one project in Gabon, one in Togo and two in South Africa.

The company has an active policy of adding new projects to the portfolio and of disposing of those that no longer fit or where a sufficiently attractive offer is made. Since flotation, the company has added the Mebaga project in Gabon and the Nayega project in Togo and has disposed of its interest in the Changara manganese project in Mozambique.

The Nayega manganese project in Togo is relatively small, but for Ferrex it has the advantage that it can quickly and easily be brought into production and generate cash flow. This cash flow should be more than enough to carry the company's modest corporate overhead and to at least part-fund the exploration required at the other projects.

Assets

Mebaga Iron Ore – Gabon

In January 2013, Ferrex acquired an 82% interest in the Mebaga iron ore project in north eastern Gabon. The exploration licence covers an area of 309km². The project is located within an area of dense primary rain forest that is currently being exploited by selective logging for hardwoods.

The project site is accessed by vehicle from Libreville by means of tarred roads to the regional centre of Mitzik and thereafter by 30 km of dirt roads that have been constructed primarily to give access for logging operations.

A modern high-capacity railway was constructed in the 1970s and 1980s from Libreville to the interior of the country, primarily to transport minerals for export. This railway passes some 100 km to the south of the project (or 200 km by road).

Figure 9: Location plan



Source: Ferrex

The Mebaga prospect was first identified in the early 1960s by BRGM, the French state geological survey. BRGM explored the deposit by means of geological mapping, trenching, sample pitting and a trial adit with a length of around 55 metres. This work defined a resource of around 20 million tonnes grading 60% iron. However, this was done using the methodologies of the time and cannot be used as a resource statement under current rules.

The geology is interpreted to be Archean granite greenstones, within which banded ironstone formations (BIF) occur. The BIFs outcrop at surface along and have been traced for around 19 km on strike.

Ferrex has now been working on the project for over a year. Following an initial programme of locating and checking some of the old BRGM sample pits, an initial

mapping and nine-hole drilling campaign has been completed, with results that generally confirm the original BRGM work. An exploration target has been defined which envisages an orebody of between 90 to 150 million tonnes of oxides grading 35% to 65% iron, below which lies a much larger but lower-grade target of primary ore. This larger target conceptually hosts between 550 and 900 million tonnes grading 25% to 40% iron.

Nayega Manganese – Togo

Ferrex holds an 85% interest in the Nayega manganese project in the far north of Togo, West Africa. The project comprises the Nayega deposit and surrounding exploration licences covering a total area of 923.9 km². The project area is classed as savannah with typical subsistence and artisanal farming, including maize and cotton.

The actual resource consists of a residual manganese deposit. Lateritic and saprolitic manganese mineralisation extends up to 10m below surface, and it is blanketed by a thin layer of detrital material that averages 0.5m thick. The explored deposit is around 2 km long and 500m across.

The deposit was first identified in the early 1960s and was initially explored by a programme of pitting under the guidance of the United Nations. The French geological survey (BRGM) conducted a further pitting programme in the early 1980s. The two programmes of work identified a relatively small and low-grade deposit that, given the remote location, was not considered to be economically viable.

Ferrex secured its interest in the project in November 2011 and immediately started work on a new pitting programme with the intention of completing a resource statement to current standards in Q2 2012. This was followed by a programme of infill pitting to bring the resource to Indicated status in Q3 2012 and to Measured status in Q3 2013. Exploration to date includes some 193 pits dug by hand to an average depth of 4.4m, though some pits go down to 10m. Samples were collected from these pits by means of vertical channelling.

The currently defined resource is summarised in the following table:

Figure 10: Nayega Resource - September 2013			
	Resource ('000 tonnes)	Grade Mn %	Manganese ('000 tonnes)
Measured	2,000	17.1	342
Indicated	9,000	12.2	1,098
Total	11,000	13.1	1,440

Source: Ferrex

The shallow and poorly consolidated nature of the deposit means that it can be mined using open pit methods without the need for explosives. Metallurgical and processing testwork suggests that the manganese ore can easily be beneficiated using a process of screening, washing and gravity concentration. The concentrated ore will be trucked to the port in Lome for export to final markets.

The distance by road from Nayega to Lome is around 600km, which would normally make the cost of road haulage of concentrate prohibitive. However, the

main road that is used by trucks carrying supplies to the Western Sahel countries north of Togo including Burkina Faso, Niger and Mali passes within a few km of the project site.

HeidelbergCement is building a clinker grinding plant in Burkina Faso to supply the local demand for cement. The required clinker will be imported through Lome and road hauled to Ouagadougou, with the trucks returning empty. Ferrex plans to use this empty haulage capacity to negotiate a low-cost transportation deal. This will have a major impact on the economics of the project.

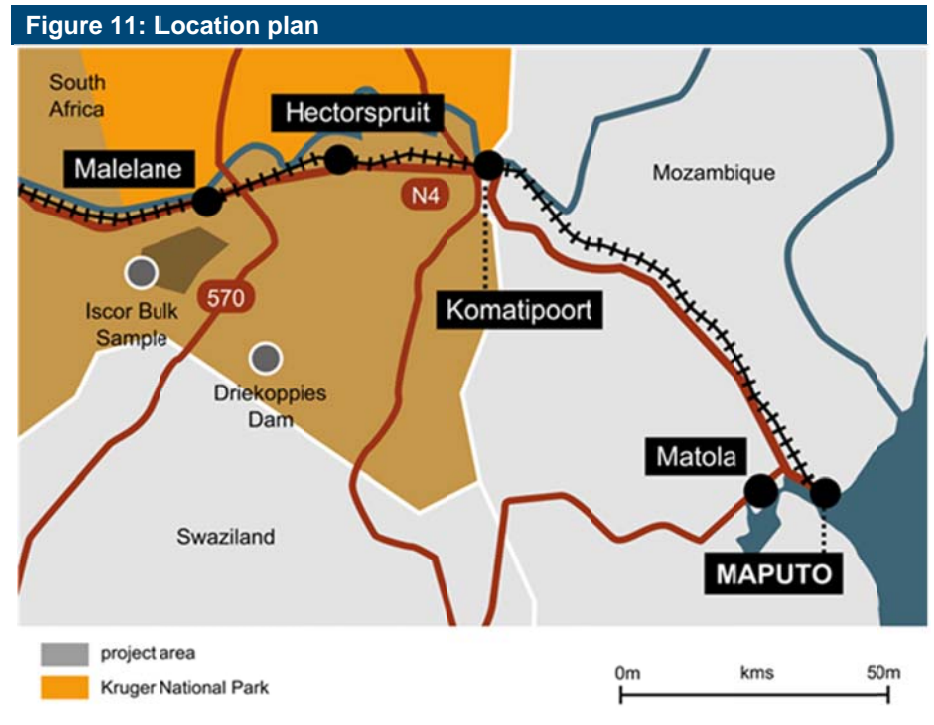
A definitive feasibility study is due for completion later in 2014 and an application to exploit the deposit has already been submitted. Ferrex hopes to start the development of the proposed mine later in 2014 and bring it into production before the end of 2015.

Continuing exploration is evaluating additional mineralisation within 10 km of the Nayega deposit.

Malelane Iron Ore – South Africa

The company holds a 74% interest in the Malelane iron ore project in the Mpumalanga region of South Africa, some 300 km to the east of Johannesburg. The project consists of a prospecting right and covers an area of around 419 km², located to the south west of the town of Malelane. The deposit is hosted by a steep sided ridge overlooking an area given over to farming.

The project benefits from high-quality infrastructure including main roads and is close to grid power and a railway that is directly linked to the port of Maputo in Mozambique.



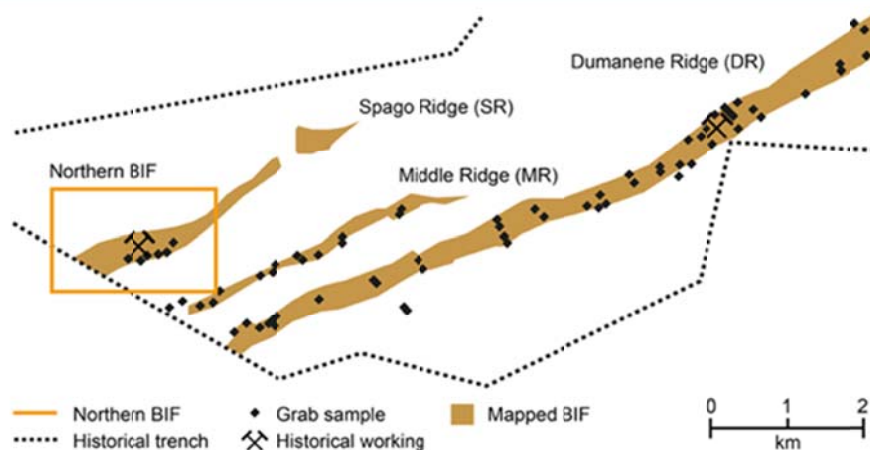
Source: Ferrex

In geological terms, the project is hosted by the Barberton greenstone belt, close to the eastern edge of the Kaapvaal Craton. The Kaapvaal Craton is a major geological feature that underlies much of Southern Africa and hosts some of the oldest rocks so far identified on earth. The Barberton greenstone belt consists of a series of mafic to ultramafic lavas and metasedimentary rocks that were deposited between 3.2 and 3.5 billion years ago.

The greenstone rocks at Malelane include banded iron formations (BIF). The Malelane BIFs consist of repeated thin layers (a few millimetres to a few centimetres in thickness) of magnetite or hematite, alternating with bands of iron-poor shales and cherts. Globally, BIFs are an important source of iron ore.

Three BIFs have been identified on the property with a combined strike length of 14 km, as shown in the following plan. Horizontal widths of the outcrops vary up to 300m.

Figure 12: Plan showing three BIFs at Malelane



Source: Ferrex

Various companies have undertaken work on the Malelane iron ore deposits. Some 25,468 tonnes of direct shipping hematite grading up to 66.4% iron was mined between 1954 and 1957. Subsequently, a considerable amount of work was done by ISCOR (now Mittal Steel South Africa) in the late 1950s and Rio Tinto in the 1970s, investigating the potential of the much larger but lower-grade BIF hematite and magnetite resources in the surrounding area.

Ferrex has continued with this work and several drilling campaigns have now been completed. One part of the most northern of the three BIFs has been explored to the point where a resource has been defined and a scoping study has been completed. This area covers around 1.4 km of outcrop out of the 14 km known. The resource is summarised in the following table:

Figure 13: Malelane Resource (20% cut-off) – March 2012

	Resource (M tonnes)	Grade Fe %	Iron (M tonnes)
Inferred	138.9	36.9	51.3

Source: Ferrex

The average grade given is for contained iron. However, some of the ore is in the form of goethite, which is an iron oxyhydroxide. When this is heated, the excess oxygen and hydrogen are driven off as water. In effect, this increases the grade of iron in the remaining material to an average of 40.1%; this is the calcined iron grade.

An updated scoping study envisages a mine feeding a process plant at a rate of 4.5 million tonnes per year to produce around 1.8 million tonnes per year of concentrate grading 57% iron. The process plant will consist of a crushing stage followed by gravity separation using a dense media separation (DMS) circuit followed by fluidised bed classifiers to treat the fine fraction. Metallurgical testwork suggests that the proposed process will recover around 58% of the contained iron.

At present, Ferrex is concentrating on the environmental and social aspects of the project ahead of a decision whether or not to move on with a full pre-feasibility study.

A drilling campaign intended to test strike extensions to the known mineralisation has been planned.

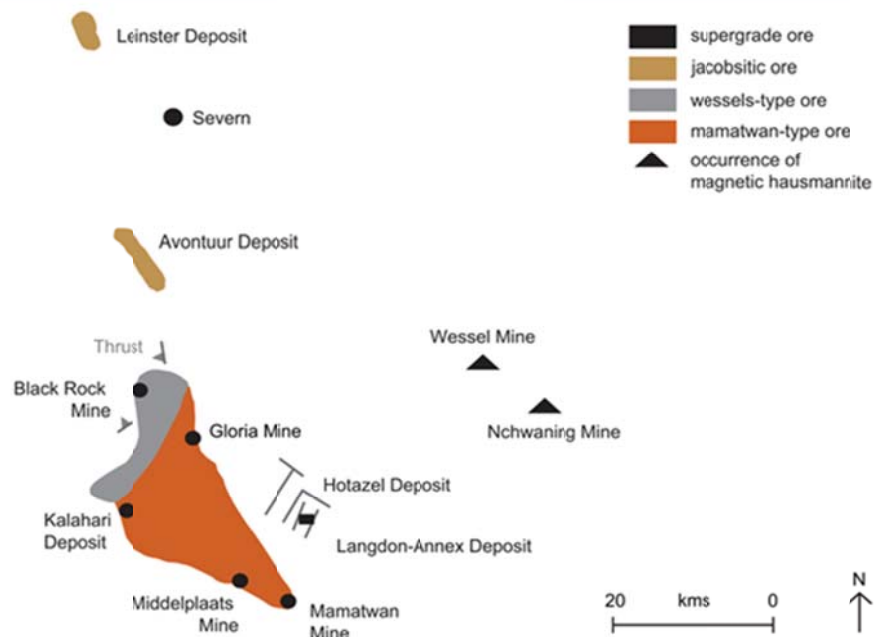
Leinster Manganese – South Africa

Ferrex has a 74% interest in the Leinster manganese project in the Northern Cape and North West provinces of South Africa. The project includes prospecting rights over 10 farms and in total covers some 468.7 km².

The project covers the Leinster Basin, an erosional outlier of the main Kalahari manganese field; this is the world's largest metallogenic province of manganese mineralisation.

Manganese mineralisation within the Leinster Basin is typically concealed beneath soft, semi-consolidated sediments of the Kalahari formation. In the Leinster Basin, the Kalahari formation cover rocks are between 70 and 150 metres thick.

Figure 14: Plan showing Leinster within the Kalahari manganese field



Source: Ferrex

The project was previously held by Anglo American, which drilled 51 holes on the property between 1977 and 1988. However, the resulting resource was not large enough to be corporately significant and the project was dropped.

Ferrex acquired the rights and, using the Anglo American data, calculated an exploration target of 5.5 to 8.7 million tonnes grading between 28.6% and 31% manganese. The target is considered to be open in all directions. The current concept is that the deposit would be worked using shallow underground mechanised room and pillar methods. The ore would need to be trucked and/or railed to ports for export. However, the local rail system is already operating at maximum capacity and so is not available for any additional ore to be transported. At present prices, road haulage is unlikely to be economic. There is a proposal to increase the capacity of the local rail system, but there is no clarity on the timing of this.

A geophysical survey was completed in 2012; this will be used to target higher grade mineralisation for further drilling. An application has been made to extend the prospecting right to cover some of the more prospective anomalies. This will be balanced by dropping the rights to areas which are unlikely to be mineralised.

Directors

Executive

Dave Reeves – Managing Director

Dave holds a first-class honours degree in mining engineering from the University of New South Wales in Australia, a graduate diploma in applied finance and investment from the Securities Institute of Australia, and a Western Australian first-class mine managers certificate of competency. Dave has spent the last 14 years operating in Africa, including at Zimbabwe Platinum Mines Ltd (Zimplats) and African Platinum plc (Afplats). He is also a non-executive director of ASX-listed Equamineral Holdings.

James Carter – Chief Financial Officer

James is a CPA with 17 years' experience in the mining industry. He was most recently CFO of Straits Resources, a diversified metals group listed on the ASX. Prior to this James was CFO and company secretary of SGX-listed Straits Asia Resources and was integral to its development as a 10 million tonnes per annum coal producer in Indonesia. His work at Straits included debt and equity capital markets, tax strategy, M&A and corporate governance. James is a board member of Worldwide Energy, an aspiring Indonesian coal company, and PTT Asia Pacific Mining.

Non-Executive

Brian Moritz – Non-Executive Chairman

Brian is a chartered accountant and former senior partner of Grant Thornton, London. He formed Grant Thornton's capital markets team, which floated over 100 companies on AIM under his chairmanship. In 1995, he retired from Grant Thornton to concentrate on bringing new companies to the market as a director.

Roy Pitchford – Non-Executive Director

Roy, a chartered accountant, has more than 25 years' senior management and executive experience. He was previously CEO of Cluff Resources Zimbabwe Ltd, Delta Gold Zimbabwe (Pvt) Ltd, Zimbabwe Platinum Mines Ltd, African Platinum plc, and African Minerals Ltd.

Russell Lamming – Non-Executive Director

Russell is a qualified geologist with an honours degree in geology from the University of the Witwatersrand and a bachelor of commerce in economics from the University of Natal in South Africa. He has a broad range of experience including as a director of a South African mining consultancy and a precious metals analyst for a leading international broker. Russell led the commercial process at Afplats and was CEO of AIM-quoted Chromex Mining, which was bought in 2010 at a significant premium to its listing price. Most recently, he was CEO of AIM-quoted Goldplat.

Income Statement				
Year ending September (£m)	2013A	2014E	2015E	2016E
Sales	0.0	0.0	0.0	0.0
<i>Sales growth (%)</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Cost of sales	0.0	0.0	0.0	0.0
Gross profit	0.0	0.0	0.0	0.0
<i>Gross margin (%)</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Operating expenses	-1.7	-1.5	-1.5	-1.5
Adjusted EBITDA	-1.7	-1.5	-1.5	-1.5
Depreciation/Amortisation	0.0	0.0	0.0	0.0
Adjusted EBIT	-1.7	-1.5	-1.5	-1.5
<i>Adjusted EBIT margin (%)</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Associates/Other	0.0	0.0	0.0	0.0
Net interest	0.0	0.0	0.0	0.0
Adjusted PBT	-1.7	-1.5	-1.5	-1.5
Adjustments	0.0	0.0	0.0	0.0
Reported PBT	-1.7	-1.5	-1.5	-1.5
Taxation	0.0	0.0	0.0	0.0
<i>Tax rate (%)</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Post tax profit	-1.7	-1.5	-1.5	-1.5
Minorities	0.1	0.1	0.1	0.1
Reported earnings	-1.6	-1.4	-1.4	-1.4
Weighted average no.shares	765.2	933.8	933.8	933.8
Average no.shares (FD)	765.2	933.8	933.8	933.8
Stated EPS (p)	-0.2	-0.2	-0.2	-0.2
Adj. EPS (FD) (p)	-0.2	-0.2	-0.2	-0.2
DPS (p)	0.0	0.0	0.0	0.0

Source: Company reports, finnCap estimates

Cash Flow				
Year ending September (£m)	2013A	2014E	2015E	2016E
EBITDA	-1.7	-1.5	-1.5	-1.5
Net change in working capital	0.0	0.2	0.4	0.4
Share based payments	0.1	0.1	0.1	0.1
Profit/loss on disposal	0.0	0.0	0.0	0.0
Net pensions charge	0.0	0.0	0.0	0.0
Change in provision	0.0	0.0	0.0	0.0
Other items	0.2	0.0	0.0	0.0
Operating cash flow	-1.4	-1.2	-1.0	-1.0
Cash interest	0.0	0.0	0.0	0.0
Tax paid	0.0	0.0	0.0	0.0
Capex	-1.0	-0.5	-15.5	-1.5
Free cash flow	-2.4	-1.7	-16.5	-2.5
Disposals	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Other	0.0	0.0	10.0	0.0
Issue of share capital/(Buyback)	2.5	2.0	7.0	6.0
Net Change in cash flow	0.1	0.3	0.5	3.5
Opening net (debt)/cash	0.2	0.3	0.6	1.1
Closing net (debt)/cash	0.3	0.6	1.1	4.6

Source: Company reports, finnCap estimates

Balance Sheet				
Year ending September (£m)	2013A	2014E	2015E	2016E
Tangible assets	0.1	0.6	16.1	17.6
Goodwill	0.0	0.0	0.0	0.0
Other intangible	0.0	0.0	0.0	0.0
Other	5.0	0.0	0.0	0.0
Non current assets	5.1	0.6	16.1	17.6
Inventories	0.0	0.0	0.0	0.0
Trade receivables	0.1	0.0	0.0	0.0
Cash	0.2	0.5	1.0	4.5
Other	0.0	0.0	0.0	0.0
Current assets	0.3	0.5	1.0	4.5
Trade payables	-0.3	0.0	0.0	0.0
Other current liabilities	0.0	0.0	0.0	0.0
Short term debt	0.0	0.0	0.0	0.0
Net current assets	0.0	0.5	1.0	4.5
Long term debt	0.0	0.0	10.0	10.0
Pension	0.0	0.0	0.0	0.0
Other/Minorities	0.0	0.0	0.0	0.0
Net assets	5.2	1.1	27.1	32.1
<i>Net working capital</i>	<i>-0.2</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>NAV per share (p)</i>	<i>0.7</i>	<i>0.1</i>	<i>2.9</i>	<i>3.4</i>
<i>NTA per share (p)</i>	<i>0.7</i>	<i>0.1</i>	<i>2.9</i>	<i>3.4</i>

Source: Company reports, finnCap estimates

Research					
David Buxton	020 7220 0542	dbuxton@finncap.com	Guy Hewett	020 7220 0549	ghewett@finncap.com
Lorne Daniel	020 7220 0545	ldaniel@finncap.com	Dr Mark Heyhoe	020 7220 0548	mheyhoe@finncap.com
Andrew Darley	020 7220 0547	adarley@finncap.com	Mark Paddon	020 7220 0541	mpaddon@finncap.com
Harold Evans	020 7220 0552	hevans@finncap.com	Martin Potts	020 7220 0544	mpotts@finncap.com
Raymond Greaves	020 7220 0553	rgreaves@finncap.com	Dr Keith Redpath	020 7220 0550	kredpath@finncap.com
Duncan Hall	020 7220 0546	dhall@finncap.com	Dougie Youngson	020 7220 0543	dyoungson@finncap.com
Corporate Broking					
Victoria Bates	020 7220 0518	vbates@finncap.com	Elizabeth Johnson	020 7220 0523	ejohnson@finncap.com
Alexandra Clement	020 7220 0521	aclement@finncap.com	Stephen Norcross	020 7220 0513	snorcross@finncap.com
Céline S Crawford	020 7220 0520	ccrawford@finncap.com	Brian Patient	020 7220 0515	bpatient@finncap.com
Mia Gardner	020 7220 0512	mgardner@finncap.com	Malar Velaigam	020 7220 0526	mvelaigam@finncap.com
Tom Jenkins	020 7220 0511	tjenkins@finncap.com	Joanna Weaving	020 7220 0514	jweaving@finncap.com
Simon Johnson	020 7220 0525	sjohnson@finncap.com			
Sales					
Chris Jeffrey	020 7220 0524	cjeffrey@finncap.com	Rhys Williams	020 7220 0522	rwilliams@finncap.com
Tony Quirke	020 7220 0517	tquirke@finncap.com			
Investor Relations					
Rose Herbert	020 7220 0570	rherbert@finncap.com	Lisa Welch	020 7220 0519	lwelch@finncap.com
Sales Trading					
Gary Brandom	0207 220 0540	gbrandom@finncap.com	Mike Nally	020 7220 0534	mnally@finncap.com
Melvyn Brown	020 7220 0537	mbrown@finncap.com	Lucy Nicholls	020 7220 0528	lnicholls@finncap.com
Kai Buckle	020 7220 0529	kbuckle@finncap.com	Danny Smith	020 7220 0533	dsmith@finncap.com
David Loudon	020 7220 0530	dloudon@finncap.com	Jeremy Smith	020 7220 0536	jsmith@finncap.com
Mick McNamara	020 7220 0521	mmcnamara@finncap.com			
Market Makers					
Steve Asfour	020 7220 0539	sasfour@finncap.com	Ben Tonnison	020 7220 0535	btonnison@finncap.com
Russell Jackson	020 7220 0538	rjackson@finncap.com			

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60 New Broad Street
London EC2M 1JJ

Tel 020 7220 0500

Fax 020 7220 0597

Email info@finncap.com

Web www.finncap.com

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