

Value Proposition

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Date	September 2013
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Price	1.95p
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Market Cap	£15.7m
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Code	FRX
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Listing	AIM
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Shares in issue	805m
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Introduction

Existing in its present form for over 15 million years the rhinoceros has no known predators in the animal kingdom. The rhino's inherited survival attributes, including strength and wisdom, allow it to thrive in often hostile environments, and it possesses an uncanny ability to expend only the necessary resources essential in the process. The choice of a rhino as AIM listed Ferrex Plc's logo is interesting in more ways than one. It might be representative of some of the African nations in which Ferrex operates but this imposing animal's positive attributes seem to be possessed in good measure by Ferrex's board members as well. In just a short time, the company's plan to become an African focussed mid-tier supplier of low cost **iron ore** and **manganese** for the steel industry has already seen it endowed with some of the very projects necessary to deliver its vision.

As tantalising as these assets might be however, nothing takes precedence over the need for a board with the experience and ability to bring projects to fruition by moving their deposits up the development curve and into production. **Ferrex's board** has a proven record of building value for shareholders by executing such a strategy, and collectively it has successfully completed trade sales worth over US\$1 billion. The board, which includes Brian Moritz, Dave Reeves, Roy Pitchford and Russell Lamming has an enviable track record of developing and selling mining companies on the African continent, notably **Afplats**, **Zimplats** and **Chromex**. Such examples of success are an elusive commodity in the natural resources sector, but not unsurprisingly, success has a habit of following those who have previously walked its path.

Ferrex is currently active in executing its strategies across 4 projects located within stable regions of Africa. The **Nayega Manganese Project** in **Togo** is scheduled to be the first to go into production; subject only to the Government granting an exploitation permit, the project is expected to be development-ready by early 2014. The exciting **Mebaga Iron Ore Project** in **Gabon** is currently undergoing a 3,000m drilling programme where the first 5 holes have all indicated high grade iron, and where the company is targeting a recently increased exploration target size of 630Mt to 1,050Mt Fe.

The company's second iron ore project **Malelane**, located in **South Africa** contains a JORC compliant inferred resource of 130Mt of 37% Fe with potential to increase this substantially. On 5th June 2013 the company announced a 70-79% increase in its Malelane contained iron ore exploration target to between 1.6Bt and 2.0Bt of 28-30% Fe. The company's second manganese project is at **Leinster** in the north of South Africa and is located on an erosional outlier of the **Kalahari Manganese Field**, just 20km from **Aquila's' Avontuur project** which hosts a resource of 147Mt of 38.2% Mn.

Leveraging from its board's experience and expertise, Ferrex is implementing a proven strategy designed to gain the maximum benefit for shareholders over the shortest practicable term. The strategy begins with the careful selection of projects with known resources and the realistic potential to grow much larger, that are amenable to early low-capex production with low operating costs. A non-negotiable component of any such strategy is the need for projects to be close to existing efficient infrastructure.

Ferrex employs a milestone driven development programme at each of its projects, targeting near term production and subsequent early cash flow. Its sequential development strategy places projects in order of priority as to their ability to achieve the earliest production, with cash generated being used to bring its next project priority into production. Throughout this process the company constantly reviews further synergistic acquisition opportunities which fit its strict investment criteria of possessing early production capabilities

Latest News

September 9th 2013: At the Nayega Project the company announced a Measured Resource of 2.0Mt @ 17.1% Mn declared to cover first three years of proposed mine life based on the results of 39 pits dug in a triangular offset pattern along 50m infill lines. In addition the total resource at Nayega has increased to 11.0Mt @ 13.1% Mn in the Indicated and Measured categories representing a 51% increase in tonnage, and a 44% increase in contained Mn tonnes since the last resource update.

August 5th 2013: The company announced a new exploration target at its Mebaga Iron Ore Project of between 630Mt and 1,050Mt had been estimated by specialists Core Geophysics based on available geophysical data, and results of reconnaissance geological mapping undertaken by Ferrex. The on-going 3,000m diamond drilling programme has made a positive start with all five holes drilled to date having intersected significant high grade iron ore. Full assay results due in Q3 2013 are expected to provide a maiden JORC compliant resource by the end of this year.

July 9th 2013: The company announced that the first 3 drill holes of its 23 hole, 3,000m drilling program at the Mebaga Iron Ore Project had all intersected visually high grade iron ore. Enriched iron has been intersected to a depth of 50m highlighting the potential for the Mebaga deposit to contain significant iron ore grades at depth. Notably the original exploration target was based on historic pitting down to a maximum of 29.4m.

June 12th 2013: The Company announced its interim results for the six months ended the 31st March 2013. The full document can be accessed [here](#).



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Operations

Ferrex is focussed on developing commodities essential to steel production from near term cash flow projects contained wholly within stable regions of the African continent. The company utilises a simple but sophisticated strategy of bringing smaller size resources with low cap-ex into early production and cash flow. It is intended that these cash flows will be used to develop other prioritised projects through to production-ready status and also to increase JORC compliant resources to maximise the mine life of each operation, thereby making debt funding easier to attain. The company reviews and assesses further opportunities on an ongoing basis, but only those which complement its strict investment criteria of low cap-ex requirement, proximity to infrastructure, and with early production potential.

The Projects

Nayega Manganese Project- Togo

Ferrex holds an 85% interest in the Nayega Manganese Project in northern Togo with 5 exploration licences covering an area of 92,390ha. Nayega is a residual manganese deposit comprising lateritic and saprolitic mineralisation extending up to 10m below surface and blanketed by a veneer of detrital material that averages 0.5m in thickness. Pitting has revealed that mineralisation, which is on average 3.3m thick, occurs over a strike length of 2.2km at widths of up to 500m. Nayega currently hosts a recently upgraded total resource of 11Mt of 13.1% Mn in the Indicated and Measured categories representing a 51% increase in tonnage, and a 44% increase in contained Mn tonnes from the last resource update. Further regional exploration is ongoing with over 250 continuous vertical channel rock samples being collected from pits with assays pending.

With mineralisation commencing at surface and no waste stripping required Nayega is amenable to a shallow pit operation. Metallurgical test work supports the implementation of a simple and low cost beneficiation process consisting of screening and gravity concentration to produce a saleable product of 38% manganese with further optimisation work currently underway. An initial scoping study has highlighted a low capital cost of less than US\$15m for a 250,000tpa manganese operation with operating costs of less than US\$2/dmtu FOB.

TOGO



A recently declared Measured Resource of 2.0Mt of 17.1% Mn covers the first 3 years of proposed mine life based on the results of 39 pits dug in a triangular offset pattern along 50m infill lines. The publication of a Measured Resource represents an essential milestone for the company as it works towards the completion of a definitive feasibility study (DFS) which is expected to set out a comprehensive development pathway for Nayega targeted for early 2014. The mining permit is expected to be secured in the near future following the recent elections in Togo which have returned the previous administration. Importantly the project is proximal to a main road with access to the **Port of Lome** in the south: this highway is the main transport route for imports to Burkina Faso and Niger to the north. Empty trucks pass Nayega on their return to Lome and the plan is to utilise part of this back-loading capacity. Nayega is expected to produce the company's first cash flows, the majority of which will then be assigned to allowing early development of the Mebaga Iron Ore Project, and the continuation of developmental work at the company's other projects.

Mebaga Iron Ore Project- Gabon

In a significant development in January 2013 Ferrex secured an 82% interest in the high-grade direct shipping ore (DSO) Megaba iron ore deposit covering 340 sq km in the stable pro-mining nation of Gabon, West Africa. With its strategy of targeting mid-size deposits close to infrastructure and with near term production potential, the project offers demonstrable synergies with the company's portfolio of assets. Mebaga represents the nearest DSO iron ore project to the Atlantic of any deposit within the Archean banded iron formation (BIF) horizons which make up the Belinga Supergroup, host to the Belinga deposit of 1Bt of 60% Fe in Gabon, and Cameroon's Mbalam deposit of 775Mt of 57% Fe. Government geology maps show that BIF within the Mebaga project is exposed over a strike length of more than 20km at widths up to 2km, making it a highly attractive deposit for Ferrex to explore further. Reconnaissance and detailed geological mapping, undertaken by Ferrex in Q1 2013, which focused on the banded iron formations (BIF) trend has been completed and highly promising results were received from a portable XRF with grades of up to 68% Fe recorded.

Work carried out by the French public earth sciences bureau BRGM in the 1960's indicated the project had a high-grade DSO exploration target of 20Mt of 60% Fe and 50Mt at 47% Fe. A 3,000m drilling program is currently underway to delineate a high grade iron ore JORC compliant resource by the end of 2013. In addition the drilling program will also ascertain if the lower grade ore (mid 40% Fe) can be easily upgraded via screening to bDSO iron ore, which would add significantly to the exploitable tonnage of the deposit. The drilling program is testing the 1.8km of strike previously identified by BRGM and in a recent announcement Ferrex reported results from the first 5 holes have all intercepted high grade iron ore mineralisation with one intersecting enriched iron to a depth of 50m indicative of the potential for high grades at depth. Potential target depths of up to 250m will be reached during the drilling campaign.

GABON



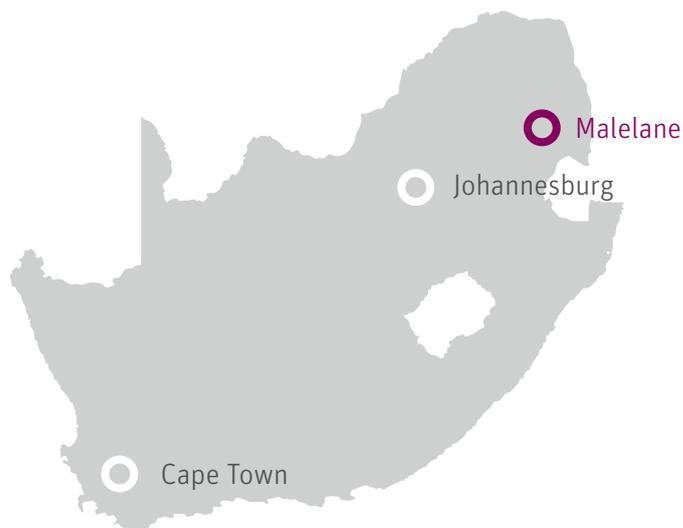
On the 5th August 2013 the company announced a new exploration target size of between 630Mt and 1,050Mt estimated by specialist company Core Geophysics, and significantly this new target was modelled on just over half of the potential strike length of BIF on the licence. 90-150Mt of this target is DSO or beneficiable DSO (bDSO): ample to produce several million tons for many years. In keeping with the company's proximity to infrastructure requirement Mebaga lies just 100km to the north of the Trans-Gabon rail link leading to the deep water Port of Owendo. Mebaga is prioritised as the company's second production development project. A scoping study due for completion by the end of 2013 to investigate the best access to infrastructure and most effective size of initial operation is currently underway.

Malelane Iron Ore Project- South Africa

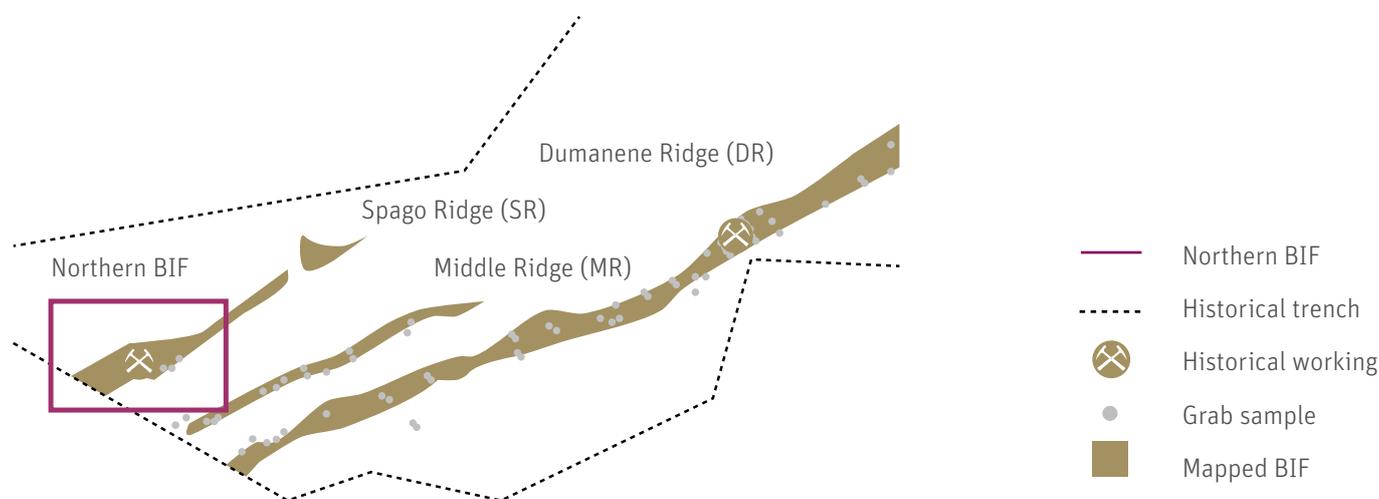
Ferrex holds a 74% interest in the Malelane Iron Ore Project incorporating prospecting rights over a 4,192 ha tenement in the prospective Mpumalanga region in South Africa. The project has 3 distinct BIF horizons with a combined strike length of 14km and mapped widths of up to 300m. The company has completed drilling programmes totalling 18 holes for 2,650m over part of the northern-most BIF resulting in the definition of a maiden JORC compliant Inferred Resource of 139Mt at 37% Fe, declared in March 2012. Significantly the resource was estimated using drill and trench data collected from just 1.1km of the 14km strike length of BIF. At higher cut-off grades of 50% and 40% Fe, the defined resource comprises 4.9Mt at 52.2% Fe and 50.9Mt at 44.3% Fe, respectively, illustrating both DSO and beneficiate before shipping ore (bBSO) potential.

Inputs from the resource calculation and metallurgical test work were used to compile a scoping study which showed the project could be economically viable as an open pit mining operation producing 1.8Mt per annum of 57% Fe over a 16.6 year mine life. At such production rates, the project has a NPV of US\$523m at a 10% discount rate and an IRR of 72%, with a capital cost of US\$139m and capital intensity of US\$77/t, which places Melalane in the lowest quartile for capital intensity of new iron ore projects globally.

SOUTH AFRICA



On 5th June 2013 the company announced a 70-79% increase in its contained iron ore exploration target to between 1.6bt and 2.0bt of 28-30% Fe and the company is expected to complete a PFS at the project by the end of 2013, the results of which will provide the basis for development plans to construct an iron ore processing operation. In line with strategy the company intends to commence development of a smaller scale, low cap-ex start-up operation at Melalane before investigating the optimum route to unlocking the project's deposits on a more significant scale. The Melalane Project is located just 6km from a rail link running 170km to Mozambique's Port of Maputo.



Leinster Manganese Project- South Africa

Ferrex has a 74% interest in the Leinster manganese project located on the border between the Northern Cape and Northwest Provinces of South Africa. The project area covers the entire known extent of the Leinster Basin, an erosional outlier of the Kalahari Manganese Field, the largest manganese metallogenic province in the world and home to Jupiter Mines' **Tshipi Project** expected to produce 2.4mtpa of ore grading 37% manganese. As the company's secondary manganese project, Leinster covers an area of 47,004 ha and lies within 20km of Aquila's Avontuur project containing 147Mt of 38.2% Mn.

Based on the results of extensive exploration on the project by Anglo American between 1977 and 1988 Coffey Mining has estimated a JORC-compliant exploration target of 5.5 to 8.7Mt of 28.6% to 31% Mn with the deposit open in all directions. Ferrex plans to define a JORC-compliant resource in 2013.

The processing of high resolution airborne magnetic/radiometric data collected in the latter part of 2012 has significantly enhanced understanding of the sub-surface geology at Leinster. In addition the work has highlighted additional targets over previously unrecognised occurrences of the Hotazel Formation which hosts manganese mineralisation in the Leinster Basin and in the larger Kalahari Manganese Field. Following more extensive 3D magnetic modelling, it is Ferrex's intention to complete a drill programme leading to the delineation of a maiden JORC compliant resource at the project. Nearby infrastructure in the Leinster area consists of sealed and gravel roads and rail access is available from the Hotazel siding to **Port Elizabeth** on South Africa's south-east coast.

SOUTH AFRICA



- Supergrade ore
- Jacobsitic ore
- Wessels-type ore
- Mamatwan-type ore
- ▲ Occurrence of magnetic hausmannite

Finances

In Q1 2013 the **company announced** the successful raising of £2.165 million before expenses by means of a placing of 135,312,500 new ordinary shares with new and existing institutional investors at a price of 1.6 pence per new ordinary share with all directors participated in the placing.

Ferrex has no debt other than ordinary trade payables and has sufficient cash to allow the execution of its planned development activities over the remainder of 2013.

Expected News Flow

- Granting of a mining permit for Nayega and release of a subsequent BFS.
- Publication of a DFS at the Nayega Project and upgrading of the project's resource to assist in defining the development pathway to early production. This is largely completed but needs to be overlain with the fiscal terms which will only be certain once the mining permit is granted.
- Announcement of the funding structure at Nayega through take-off agreements, debt, or other alternatives. Much of these discussions have already taken place: but again can only be finalised once fiscal terms are set out.
- Further results from the current 3,000m drilling program at the Mebaga Project and the resulting definition of a high grade iron ore JORC compliant resource for the project.
- Results of a scoping study at Mebaga to investigate best access to infrastructure and the most effective size of an initial operation.
- Publication of a PFS at the Malelane Project to provide the basis for development plans to construct an iron ore processing operation.

The Value Proposition

Since listing on AIM in July 2011 Ferrex has achieved significant progress across all of its African projects, a continent on which its various board members have a stellar track record of proving up substantial resources and selling them on at big profits. With the board heavily invested in the company and its outcomes themselves, the interests of all shareholders always remains paramount.

The company's strategy of milestone driven, sequentially prioritised development is designed to produce early cash flow, and in minimising exploration expenditure, excuses its investors from participating in costly, dilutive and highly speculative needle-in-haystack drilling campaigns. Its strategy also negates the considerable challenges companies face when trying to secure large scale and dilutive financing to build railways, ports and other expensive infrastructure facilities as a prerequisite to future production. Ferrex continues to assess new project opportunities which complement its low-capex, near to infrastructure and early production capability investment criteria.

Steel making commodities might not be the market's current flavour of the month but in contrast chasing the latest 'hot' commodity often defies the logic of longer term mining investment. China, the world's largest steel producer, might currently be taking a well-earned breather, but the benchmark iron ore price remains for the most part over \$120/t. As the global economic recovery gathers pace, its demand for steel making commodities will undoubtedly resume its increase. **Global iron ore demand is expected**

to double to around 3.5Bt a year by 2030 and iron ore prices have recently increased to their **highest level in 5 months** on the back of heavy steel re-stocking by Chinese steel mills. In addition Platts McGraw-Hill Financial expect **manganese prices to rise by 20% from 2012 to 2017**.

Ferrex's share price during 2013 has performed better than most companies in the natural resources sector due to its project and management quality and the prospect of near term cash flow, but even in this currently subdued market we believe its market cap of just £13.28m hugely understates the intrinsic value inherent within the company. Regardless of the current widespread discount being applied to natural resources stocks in general, we think it is fair to say the market is amiss in so far failing to interpret the very positive directions in which the company's strategies are leading.

We believe that Ferrex possesses the potential for very substantial share price growth as projects come into production, and known resources expand across projects. Finncap has recently reiterated its price target of 10.4p originally set in January 2013 excluding the then newly-acquired Mebaga project, which to our minds could be the 'jewel in the crown'. The company is funded to carry out its planned activities over the remainder of 2013 and with **no fewer than 30 would-be partners looking closely** at Ferrex and its projects, investor interest should accelerate as the company delivers a BFS for Nayega, and agrees funding for its projects. With active development programmes across all of its projects, regular news flow is assured, with much of it potentially able to spark meaningful increases in the company's share price.



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