

19 July 2013

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## JUNE 2013 QUARTERLY REPORT

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### HIGHLIGHTS:

- Continuation of the 110kv power line construction for the Ereeny project;
- Mongolia-standard Feasibility Study (**Mongolia-standard FS**) for the Ereeny project was approved by the Mineral Resources Authority of Mongolia (**MRAM**);
- General Environmental Impact Assessment (**EIA**) report for the Ereeny project was approved by the Ministry of Environment, and Detailed Environmental Impact Assessment (**Detailed EIA**) report is pending for approval;
- Water resource exploration report for the Ereeny project has been submitted to the Ministry of Environment for approval;
- The Company is engaging a Mongolian design institute to prepare for construction drawings for the Ereeny project, for the mine construction to submit to the Mongolian authorities for approval;
- In preparation for the mine construction for the Ereeny project, a geotechnical investigation was conducted to evaluate the soil condition of the proposed location for the processing facility and ancillary buildings;
- Measurements have been taken to minimize the Company's non-US\$ exposures with the consideration of recent A\$ currency market volatility;
- The Board of Directors and Management have undertaken efforts to explore various financing options and regard it as the highest priority. Project finance or equity finance alternatives are being sought to provide funding for the mine construction. Delays in securing this financing will continue to impact the mine development timetable.

FeOre Limited (**FeOre** or the **Company**) provides the following commentary for the three months ended 30 June 2013.

## **EREENY PROJECT**

### **High Voltage Power Line Construction**

A local Mongolian contractor was previously engaged by the Company to construct the high voltage power connections between the power station at Choir and the Ereeny project location. First procurement of the power grids have been shipped to the field, further preparation for ground installation is in progress. The Company has been advised that expansion of the capacity of the Choir power station is planned to be undertaken.

### **Mongolia-standard Feasibility Study (Mongolia-standard FS) Approval**

The Mongolian-standard FS was approved by Mineral Resources Authority of Mongolia (**MRAM**) in June. It is an update to the previously approved version due to the changes in processing design and mine plan design. The updated Mongolian-standard FS approval is a requirement for the approval of Environmental Impact Assessment (**EIA**) report and the approval of mine construction.

### **Detailed Environmental Impact Assessment (Detailed EIA) Report**

The Ministry of Environment has issued to the Company a general EIA report based on the approved Mongolian-standard FS and the Company has expanded its scope and submitted a Detailed EIA report for approval.

### **Water Resource Exploration Report**

The water resource exploration report was submitted to the Ministry of Environment for approval. The report was based on previous water exploration work done.

### **Construction Drawings**

The Company in the process of engaging a Mongolian design institute for the preparation of mine construction drawings in accordance with Mongolian standards, with consideration of the inputs

provided by MCC Capital Engineering & Research Incorporation Qinguangdao Co., Ltd (**MCC**). The Management has evaluated multiple candidates.

### **Geotechnical Investigation**

Geotechnical investigation work was completed by a local Mongolian contractor and the report has been approved by the corresponding state authority. Field drilling work was completed in April and assaying in May. The investigation was conducted for the purpose of obtaining information on the physical properties of soil and rock around a site, and consequently facilitating groundwork designs for proposed structures. The report provides an understanding on the rock and soil characteristics for the area that the processing facilities and ancillary buildings will be built on.

### **RISK MANAGEMENT**

Based on the Company's exposure to the Australian dollar (**A\$**) and the recent volatility the Directors resolved to reduce it's A\$ exposure to the minimum level. During the period the A\$ was weakened by 12.4% and was expected to weaken further. The Company has entered into forward contracts for the exchange of a substantial portion of A\$ into US\$ and incurred a net loss of approximately US\$1.92 million, which represented approximately 9.3% of the principal amount. These losses will be reflected in the FY13 accounts. The Company has received net interest on the A\$ deposits of US\$1.22 million since IPO, and a net interest of US\$0.69 million in the FY13 year, which is higher than the US dollar deposit rates and mitigates the net loss in holding the A\$ currency over the period.

### **PROJECT FUNDING**

From IPO in December 2011 to 30 June 2013, the Company has spent a total of approximately US\$4.6 million on project development for the Ereeny Project and has incurred a total amount of US\$0.2 million for the development of the Dartsagt Project. Additional project financing is required for the development of the projects. The Board of Directors and management have undertaken significant efforts to explore various project financing sources. The US\$25M Convertible Bonds (**CB**) will be maturing on December 6, 2014, with the first put option exercisable by the convertible-bondholders on December 6, 2013. In case of the put option being exercised, the Company will

have to raise money to redeem the CB. The Board of Directors and management are promptly assessing and seeking possible solutions, and this is one consideration within the fundraising plan and financing discussions. Mine development has been significantly delayed and depends on the success of securing additional financing. Despite the challenging market, the Board of Directors and management are working diligently with banks, introduction brokers and other interested investment parties with the goal of obtaining financing in either debt or equity or both, as a top priority.

#### **UPDATES ON INVESTMENT ENVIRONMENT IN MONGOLIA**

The recent amendment to Law on the regulation of the foreign investment in entities operating in strategic sectors is viewed as a positive signal by the Company.

Mongolia passed a Law on the regulation of the foreign investment in entities operating in strategic sectors (**LRISE**) in May 17<sup>th</sup>, 2012. The intention of the law was to regulate foreign investment in entities of strategic importance (mining, finance and banking, media, information and communications sectors). The law specified that if a foreign investment in those entities exceeded a threshold of 49%, such investment would need a Parliament approval.

In March 2013, the Cabinet passed on a draft amendment to the LRISE to the Parliament. The Parliament approved the final draft of the amendment on 19 April 2013. The new edition of Article 4.7. of the LRISE now reads as follows:

“In case share possessed by Foreign State Owned Enterprises and State Participated Entities in an entity operating in the strategic sector exceeds 49%, the Parliament shall decide upon the submission by the Cabinet. In all other cases, the Cabinet shall make a decision on the permission”.

**- Ends -**

**For more information:**

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## Forward Looking Statements

This report contains certain forward looking statements which by nature, contain risk and uncertainty because they relate to future events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements.

Certain statements made herein, including statements relating to matters that are not historical facts and statements of FeOre's beliefs, intentions and expectations about developments, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable legislation and "forward-looking statements" within the meaning of applicable provisions. Forward-looking information and statements relate to future events or future performance, reflect current expectations or beliefs regarding future events and are typically identified by words such as "anticipate," "could," "should," "expect," "seek," "may," "intend," "likely," "plan," "estimate," "will," "believe" and similar expressions suggesting future outcomes or statements regarding an outlook.

Forward-looking statements and information are made based upon certain assumptions and other important factors that, if untrue, could cause the actual results, performances or achievements of the Company to be materially different from future results, performances or achievements expressed or implied by such statements or information. Such statements and information are based on numerous assumptions regarding present and future business strategies and the environment in which the Company will operate, including the price of iron ore, anticipated costs and ability to achieve goals, as well as the timing of the completion of any fund-raising activities. Certain important factors that could cause actual results, performances or achievements to differ materially from those in the forward-looking statements and information include, among others, iron ore price volatility, discrepancies between actual and estimated production, mineral reserves and resources, mining operational and development risks, litigation risks, regulatory restrictions (including environmental regulatory restrictions and liability), activities by governmental authorities, currency fluctuations, the speculative nature of iron ore exploration, the global economic climate, dilution, share price volatility, competition, loss of key employees, funding requirements and defective title to mineral claims or property. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements and information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended.

All such forward-looking information and statements are based on certain assumptions and analyses made by FeOre's management in light of their experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. These statements, however, are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking information or statements. Such factors include, among other things, the political risks associated with





FeOre's principal operations in Mongolia; the impact of changes in, changes in interpretation to or changes in enforcement of, laws, regulations and government practices in the jurisdictions in which FeOre operates; and changes in the attitudes of the Mongolian government.

Important factors that could cause actual results to differ from these forward-looking statements include those described under the heading "Risk Management" and "Project Funding" included in the issuer's Quarterly Report. These risk factors may be generally stated as the risk that the assumptions and estimates expressed above do not occur, including the assumption in many forward-looking information or statements that other such information or statements will be correct. The reader is cautioned not to place undue reliance on forward-looking information or statements. All forward-looking information and statements herein are made as of the date hereof. FeOre does not intend or undertake to update or revise forward-looking statements or information, whether written or oral or whether as a result of new information, future events or otherwise, that may be made by FeOre or on its behalf, except as required by law.