SOUTH AMERICAN FERRO METALS LIMITED

INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2014

ABN 27 128 806 977

Directors

Terence Willsteed (Chairman)
Stephen Turner (Managing Director)
Alan Doyle
Wayne Kernaghan
Rogerio Caporali

Company Secretary

Dion Cohen

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Solicitors

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Auditors

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CONTENTS **Page**

DIRECTORS' REPORT

Your Directors' submit their report for the half-year ended 31 December 2014.

Directors

The names of the Company's Directors in office during the half-year and until the date of this report are set out below.

Name	Position	Date of appointment to Board	Date of resignation from Board
Terence Willsteed	Non-executive Chairman	11 November 2010	-
Stephen Turner	Managing Director	1 March 2013	-
Alan Doyle	Executive Director	1 March 2013	-
Stephen Fabian	Non-executive Director	11 November 2010	11 December 2014
Wayne Kernaghan	Non-executive Director	26 June 2012	-
Rogerio Caporali	Non-executive Director	1 August 2013	-

Review of Operations

Set out below is a review of significant activity for South American Ferro Metals Limited ("SAFM") for the half-year ended 31 December 2014.

Production

Beneficiated production increased by 15% to 499,053 tonnes during the period (2013: 433,599 tonnes), broken down as follows:

Beneficiated Production	Six Months to 31 December 2014 (tonnes)	Six Months to 31 December 2013 (tonnes)	% Change 31 Dec 2013 to 31 Dec 2014
Small Lump	164,546	112,157	47%
Sinter Feed	153,212	129,547	18%
Concentrate	181,295	191,895	6%
Total	**499,053**	**433,599**	**15%**

During the period, SAFM continued to implement operational improvements that increased mass recovery and reduced overall production costs to $19.88 per tonne by 31 December 2014. During the period, the Company installed a Low Intensity Separator on Concentrator One which is expected to increase production going forward.

Sales

Sales volumes increased by 48% to 447,758 tonnes compared to the prior period (2013: 302,726 tonnes), broken down as follows:

Sales Volume	Six months to 31 December 2014 (tonnes)	Six months to 31 December 2013 (tonnes)	% Change 31 Dec 2013 to 31 Dec 2014
Small Lump	112,162	75,824	48%
Sinter Feed	33,091	65,006	(49%)
Concentrate	117,818	161,896	(27%)
Blend	184,686	-	-
Total	**447,757**	**302,726**	**48%**

During the period, SAFM's average weighted selling price decreased to $26.90 per tonne due to the drop of the international iron ore price. With the aim to realise higher prices, SAFM began to blend its Sinter Feed and Concentrate product to create a new blended product. The blended product resulted in an overall 33% increase in net selling price compared to the combined ratio of Sinter Feed and Concentrate products in the same period.

Summary of Income Statement

	Six months to 31 Dec 2014 $'000	Six months to 31 Dec 2013 $'000
Sales revenue	12,381	10,920
Cost of goods sold	(10,545)	(8,534)
Gross profit	1,836	2,386
Other Expenses	(4,120)	(2,501)
Impairment	(11,133)	-
Net Finance Costs	(960)	(459)
Loss before tax	(14,378)	(574)
Income tax expense	(556)	(482)
Net loss after tax	(14,933)	(1,056)
EBITDA	959	1,219
EPS (cents per share)	(3.65)	(0.26)

Results of operations

SAFM has reported a net loss before tax of $14,376,859 for the six month period ended 31 December 2014 (2013: net loss: $573,912) on Revenue of $12,381,281 (2013: $10,919,822). The Company recognised an impairment expense of $11,132,522 (2013: Nil) of its exploration asset which contributed to the increased loss.

The Group's Balance Sheet reflects with shareholder equity of $5.6 million. Cash on hand at 31 December 2014 amounted to $727,398.

Earnings before Interest, Depreciation and Amortisation ("EBITDA") for the period amounted to $959,456[1] (2013: $1,219,138) which helped to fund its working capital and investment activities.

Joint Venture Project

In July 2014, SAFM entered into a Memorandum of Understanding ("MOU") with the adjacent property owner regarding the mining of Sapecado Sul, an area located on the eastern side of the SAFM Ponto Verde mine. The agreement will allow SAFM access to this area in order for the Company to optimize its deposits by advancing its mining operations through the boundary of the eastern side of its tenement.

[1] EBITDA is calculated by adding back Depreciation & Amortisation of $890,337, Impairment of $11.1 million, Unrealised Foreign Exchange Loss of $2.3 million, Finance cost of $1 million to the loss before tax of $14.4 million.

Updated JORC Resource Statement

On 8 September 2014, SAFM announced that its JORC Mining Resource has increased by 34%, from 301.1 Mt to 403.71 Mt, which is set out in the JORC Resource table below.

	Million Tonnes	Fe Content (%)
Total Resources	403.71	40.36
Measured Resources	83.82	40.44
Indicated Resources	157.79	41.01
Inferred Resources	162.1	39.68

Additional Resource information was gathered from an additional 12 diamond drill which confirms the continuity of the mineralization.

The majority of the updated Resource has been calculated to an average depth of 70 metres below the surface. However, exploration drilling at depth has highlighted that mineralisation extends to over 320 metres depth. For more details on the SAFM's resource, refer to the Company's ASX announcement dated 8 September 2014.

Competent persons

Information in this statement that relates to the JORC resource at Ponto Verde is based on information compiled by Mr Bernardo Hurta de C Viana (Phase I) and Mr Porfirio Cabaleiro (Phase II) both of Coffey Mining (Brazil). Both are Members of the Australasian Institute of Mining and Metallurgy. Mr Viana and Mr Cabaleiro have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activities which they have each undertaken to qualify as a "Competent Person" as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore reserves (the JORC Code). Mr Viana and Mr Cabaleiro have consented to the inclusion of their information in this report, in the form and context in which they appear.

Refinancing of Deutsche Loan

Due to the decline in the iron ore price, SAFM failed to meet its covenant in respect of generating sufficient cash from operations to repay its debt to Deutsche Bank of US$15 million due in July 2015.

On 24 December 2014, SAFM entered into a waiver Deed with Deutsche Bank which included a proposal to Deutsche Bank to refinance SAFM's current US$15m debt facility ("refinancing proposal"). In exchange for the waiver, SAFM will accrue additional interest of 2% per annum on the balance of its loan until repayment. In addition, SAFM will issue 20.5 million unlisted share options to Deutsche Bank, exercisable at the issue price for shares received by a new investor under the refinancing proposal. If the refinancing proposal is not implemented, the option exercise price will be the lower of 0.5 cent per share or 75% of the closing price of SAFM shares on the trading day immediately prior to the issue date. The period of the new options is 5 years from the date of issue. It is anticipated that the options will be issued under the Company's 15% placement capacity.

Health & Safety

There have been no environmental issues, nor lost time incidences recorded since the commencement of mining, maintaining SAFM's exemplary safety record.

Significant Changes in the State of Affairs

Other than the activities described in the Directors' report above there were no other significant changes in the state of affairs of the Company for the six months ended 31 December 2014.

After Balance Date Events

The further decline in iron ore prices during 2015 has placed significant pressure on SAFM's operating margins. SAFM has responded by implementing cost reduction initiatives.

Despite these positive steps, the cash generated from operations is not able to generate sufficient cash to repay SAFM's US$15 million obligation by its maturity on 25 July 2015. SAFM is currently working on a refinancing proposal with interested parties aimed at structuring an agreement to repay Deutsche Bank in the near future.

Going Concern

This interim report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business. The consolidated entity has incurred a net loss after tax for the half-year ended 31 December 2014 of $14,933,000 (2013: $1,056,000) and experienced net cash outflows from operating activities of $1,345,000 (2013: $2,903,000).

The ability of the Company to continue as a going concern is dependent on the Company being able to refinance the debt facility.

The Directors believe that they will be able to finalise this process subsequent to the date of accounts approval. The Directors believe that the Company will continue as a going concern. As a result the financial report has been prepared on a going concern basis. However should the Company be unsuccessful in renegotiating the debt facility restructuring the Company may not be able to continue as a going concern. No adjustments have been made relating to the recoverability of assets and classification of liabilities that might be necessary should the Company

Auditor's Independence Declaration

An Auditor's Independence Declaration has been received from our auditors, Ernst & Young, which immediately follows this Directors' report.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (unless otherwise stated) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

Signed in accordance with a resolution of the Directors.

Stephen Turner

Sydney
16 March 2015

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Auditor's Independence Declaration to the Directors of South American Ferro Metals Limited

In relation to our review of the financial report of South American Ferro Metals Limited for the financial half year ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ryan Fisk
Partner
Sydney
16 March 2015

INTERIM CONSOLIDATED INCOME STATEMENT
for the half-year ended 31 December 2014

From continuing operations	Note	31 Dec 2014 $'000	31 Dec 2013 $'000
Sales revenue	4	12,381	10,920
Cost of goods sold		(10,545)	(8,534)
Gross profit		1,836	2,386
Other Income / (Expenses)			
Finance income		49	1
Other income		60	51
Foreign exchange loss		(2,289)	(317)
Administrative and other costs	5	(1,651)	(1,968)
Share-based payment expense	15	(240)	(267)
Finance costs		(1,009)	(460)
Impairment	9	(11,133)	
Loss before tax		**(14,378)**	**(574)**
Income tax expense		(556)	(482)
Loss after tax for the period attributable to members of the parent entity		**(14,933)**	**(1,056)**
Earnings per share (cent per share)			
– Basic loss per share	6	(3.65)	(0.26)
– Diluted loss per share	6	(3.65)	(0.26)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the half-year ended 31 December 2014

	31 Dec 2014 $'000	31 Dec 2013 $'000
Loss after tax for the period attributable to members of the parent entity	**(14,933)**	**(1,056)**
Other Comprehensive Income which cannot be reclassified through the Income Statement:	-	-
Other Comprehensive Income which can be reclassified through the Income Statement:		
Exchange differences on translating foreign controlled entities	(1,631)	(667)
Other Comprehensive Expense	**(16,564)**	**(667)**
Total comprehensive loss for the period, net of tax	**(16,564)**	**(1,723)**
Attributable to:		
Members of the parent entity	**(16,564)**	**(1,723)**

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	31 Dec 2014 $'000	30 June 2014 $'000
ASSETS			
Current assets			
Cash	7	727	3,438
Trade and other receivables		3,305	2,349
Prepayments		76	92
Inventories	8	2,814	3,280
Total current assets		6,922	9,159
Non-current assets			
Exploration and evaluation assets	9	-	9,588
Mining properties	10	7,023	7,439
Property, plant & equipment	11	15,915	17,647
Deferred tax asset		244	257
Other non-current assets		2,120	1,693
Total non-current assets		25,302	36,624
Total assets		32,224	45,783
LIABILITIES			
Current liabilities			
Trade and other payables		3,525	3,507
Taxation owing		428	382
Provisions	12	1,352	1,193
Interest-bearing loans and borrowings	13	18,223	-
Total current liabilities		23,528	5,082
Non-current liabilities			
Interest-bearing loans and borrowings	13	-	15,237
Provisions	12	3,058	3,501
Total non-current liabilities		3,058	18,738
Total liabilities		26,586	23,820
Net assets		5,639	21,963
SHAREHOLDERS' EQUITY			
Contributed equity		48,312	48,312
Share-based payment reserve	15	3,123	2,883
Foreign currency translation reserve		(6,996)	(5,365)
Accumulated losses		(38,800)	(23,867)
Total shareholders' equity		5,639	21,963

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half-year ended 31 December 2014

	Contributed Equity $'000	Share Based payment reserve $'000	Foreign currency translation reserve $'000	Accumu-lated Losses $'000	Total Equity $'000
At 1 July 2013	**48,312**	**1,550**	**(4,888)**	**(22,579)**	**22,395**
Loss for the period	-	-	-	(1,056)	(1,056)
Other comprehensive income	-	-	(667)	-	(667)
Total comprehensive loss for the period	-	-	(667)	(1,056)	(1,723)
Equity transactions with owners					
Options issued	-	722	-	-	722
Share options expensed	-	267	-	-	267
At 31 December 2013	**48,312**	**2,539**	**(5,555)**	**(23,635)**	**21,661**
At 1 July 2014	**48,312**	**2,883**	**(5,365)**	**(23,867)**	**21,963**
Loss for the period	-	-	-	(14,933)	(14,933)
Other comprehensive income	-	-	(1,631)	-	(1,631)
Total comprehensive loss for the period	-	-	(1,631)	(14,933)	(16,564)
Equity transactions with owners					
Share options expensed	-	240	-	-	240
At 31 December 2014	**48,312**	**3,123**	**(6,996)**	**(38,800)**	**5,639**

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

for the half-year ended 31 December 2014

	Note	31 Dec 2014 $'000	31 Dec 2013 $'000
Cash flows from operating activities			
Receipts from customers		11,485	7,516
Payments and advances to suppliers and employees (exclusive of GST and other Brazilian taxes payable)		(10,953)	(10,112)
Taxation and other social taxes paid		(427)	(146)
Payments for restricted cash		(510)	(145)
Interest paid		(940)	(16)
Net cash flows utilised in operating activities		**(1,345)**	**(2,903)**
Cash flows from investing activities			
Interest received		49	1
Payments for property, plant & equipment		(132)	(5,173)
Payments for exploration and evaluation assets		(1,039)	(2,479)
Net cash flows utilised in investing activities		**(1,122)**	**(7,651)**
Cash flows from financing activities			
Proceeds from borrowings		-	16,226
Payment of Finance Costs		-	(438)
Repayments of borrowings		-	-
Net cash flows from financing activities		**-**	**15,788**
Net (decrease) / increase in cash held		**(2,467)**	**5,234**
Cash at the beginning of the financial period		3,438	411
Effects of exchange rates on cash holdings in foreign currencies		(243)	(545)
Cash and cash equivalents at the end of the period		**727**	**5,100**

1. CORPORATE INFORMATION

This interim report covers South American Ferro Metals Limited ("SAFM" or the "Company" or the "Group") and the entities it controlled at the end of, or during, the six months ended 31 December 2014. The presentation currency of the Group is Australian Dollars ("$").

SAFM is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX") and are currently listed on the ASX under the codes "SFZ".

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

(a) Going Concern

This interim report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business. The consolidated entity has incurred a net loss after tax for the half-year ended 31 December 2014 of $14,933,000 (2013: $1,056,000) and experienced net cash outflows from operating activities of $1,345,000 (2013: $2,903,000). The ability of the Company to continue as a going concern is dependent on the Company being able to refinance the debt facility.

The Directors believe that they will be able to finalise this process subsequent to the date of accounts approval. The Directors believe that the Company will continue as a going concern. As a result the financial report has been prepared on a going concern basis. However should the Company be unsuccessful in renegotiating the debt facility restructuring the Company may not be able to continue as a going concern. No adjustments have been made relating to the recoverability of assets and classification of liabilities that might be necessary should the Company not continue as a going concern.

(b) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared on a going concern basis and in accordance with IAS 34 "*Interim Financial Reporting*" and the Corporations Act 2001.

These Interim Financial Statements do not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. These half-year financial statements should be read in conjunction with the Annual Report of South American Ferro Metals Limited as at 30 June 2014.

It is also recommended that the Interim Financial Statements be considered together with any public announcements made by South American Ferro Metals Limited and its controlled entities during the half-year ended 31 December 2014 and up to the issue date of this report, in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report except for the adoption of new and revised Accounting Standards listed under (c).

The accounting policies adopted are consistent with those of previous financial year and corresponding interim reporting period.

The consolidated interim financial statements of the Company as at and for the six months ended 31 December 2014 comprises the Company and its subsidiaries (together referred to as the "Group") as presented in the last annual consolidated financial statements as at 30 June 2014. The interim Financial Statements have been approved and authorised for issue by the Board of Directors on 16 March 2015.

(c) Accounting policies, standards and interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2014, except for the adoption of new standards and interpretations noted below:

2. ACCOUNTING POLICIES (continued)

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2014:

- AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities
- Interpretation 21 Levies (IFRIC21)
- AASB 2013-4 Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting [AASB 139]
- AASB 2013-5 Amendments to Australian Accounting Standards – Investment Entities [AASB 1, AASB 3, AASB 7, AASB 10, AASB 12, AASB 107, AASB 112, AASB 124, AASB 127, AASB 132, AASB 134 & AASB 139]
- AASB 2013-7 Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policyholders [AASB 1038]
- Annual Improvements to IFRSs 2010–2012 Cycle
- Annual Improvements to IFRSs 2011–2013 Cycle
- AASB 1031 Materiality
- AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments – Part B

The adoption of these amendments did not have any impact on the financial position or the performance of the Group. Other new and amended standards and interpretations are not applicable. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(d) Estimates

When preparing the Interim Financial Statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurements of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management and will seldom equal the expected results.

3. OPERATING SEGMENTS

The Group has determined operating segments based on the information provided to the Board of Directors (Chief Operating Decision Maker).

The Group operates predominately in one business segment, being the mining, processing and sale of iron ore in Brazil. There is no material difference between the financial information presented to the Chief Operating Decision Maker and the financial information presented in this report.

Due to the current outlook for iron ore prices, a total impairment of $11.1 million (Australia: $5.8 million, Brazil: $5.3 million) has been recognised in relation to SAFM's exploration asset.

Geographical Information

	31 Dec 2014 $'000	31 Dec 2013 $'000
Revenue from External Customers		
Australia	-	-
Brazil	12,381	10,920
Total Revenue per Consolidated Income Statement	12,381	10,920

All Sales during HY2015 were made to customers located in Brazil.

	31 Dec 2014 $'000	30 June 2014 $'000
Non-Current Assets		
Australia	12	4,170
Brazil	25,290	31,914
Total Revenue per Consolidated Income Statement	25,302	36,624

Non-Current Assets for this purpose consist of property, plant and equipment, mining rights and intangible assets.

4. SALES REVENUE

	31 Dec 2014 $'000	31 Dec 2013 $'000
Sales revenue	12,381	10,920

5. ADMINISTRATIVE AND OTHER COSTS

	31 Dec 2014 $'000	31 Dec 2013 $'000
Accounting fees	164	154
Auditors' remuneration	44	46
Consulting fees	146	34
Depreciation of office equipment	12	10
Employment costs	743	721
Rent	166	162
Legal fees	53	27
Travel and accommodation	39	49
Write off of bad debts	-	6
Other administrative expenses	284	759
	1,651	1,968

6. EARNINGS PER SHARE

The following reflects the earnings and number of shares used in the calculation of the basic and diluted earnings per share:

	31 Dec 2014	31 Dec 2013
Basic loss per share (cents per share)	(3.65)	(0.26)
Diluted loss per share (cents per share)	(3.65)	(0.26)
Net loss attributable to ordinary shareholders ($'000)	(14,933)	(1,056)
	Shares '000	Shares '000
Weighted average number of ordinary shares used in the calculation of basic earnings.	409,148	409,148
Weighted average number of ordinary shares used in the calculation of diluted earnings	409,148	409,148
Total number of ordinary shares on issue.	409,148	409,148

7. CASH

	31 Dec 2014 $'000	30 June 2014 $'000
Cash at Bank	727	3,438

8. INVENTORIES

	31 Dec 2014 $'000	30 June 2014 $'000
Raw Material	167	168
Concentrator Feed	1,066	2,054
Consumable Stock	863	824
Finished Goods	718	234
	2,814	3,280

Inventory is valued at cost, except for concentrator stock which is valued at net realisable value at 31 December 2014. During HY2015 $87,449 was recognised as an expense for concentrate inventory carried at net realisable value. This was recognised in cost of sales.

9. EXPLORATION AND EVALUATION ASSETS

	31 Dec 2014 $'000	30 June 2014 $'000
Opening Balance	9,588	4,300
Exploration expenditure capitalised		
– Exploration and evaluation phases	1,666	5,371
Less:		
– Amortisation	(15)	(26)
– Impairment (a)	(11,133)	-
– Foreign exchange movement	(106)	(57)
	-	9,588

(a) Total impairment losses of $11.1 million were recognised in respect of the exploration and evaluation assets. The trigger for the impairment analysis was primary the recent decline in forecast short term and long term iron ore prices. The development of the company's exploration and evaluation is intrinsically related to market conditions and is contingent on the Group's successful completion of the debt financing given additional funds would be required. Therefore, the carrying amount of the exploration and evaluation asset recoverability as at 31 December 2014 is uncertain. Hence, the Company has fully impaired the assets.

10. MINING PROPERTIES

31 Dec 2014	Cost $'000	Accumulated Amortisation $'000	Carrying Value $'000
Mineral rights	7,315	(292)	7,023

31 Dec 2014	Opening Balance 1 July 2014 $'000	Foreign Exchange Movement $'000	Additions $'000	Amortisation $'000	Carrying Value 31 Dec 2014 $'000
Mineral rights	7,439	(376)	-	(40)	7,023

30 June 2014	Cost $'000	Accumulated Amortisation $'000	Carrying Value $'000
Mineral rights	7,706	(267)	7,439

30 June 2014	Opening Balance 1 Jul 2013 $'000	Foreign Exchange Movement $'000	Additions $'000	Amortisation $'000	Carrying Value 30 Jun 2014 $'000
Mineral rights	7,628	(122)	-	(67)	7,439

11. PROPERTY, PLANT & EQUIPMENT

31 December 2014	Cost $'000	Accumulated Depreciation $'000	Carrying Value $'000
Decommissioning asset	1,432	(82)	1,350
Plant	9,456	(1,802)	7,654
Land	5,289	-	5,289
Furniture & fittings	175	(51)	124
Computer hardware	131	(61)	70
Motor vehicles	129	(90)	39
Machinery and equipment	529	(105)	424
Software	79	(33)	46
Buildings	360	(44)	316
Laboratory	514	(99)	415
Work in progress	129	-	129
Mechanical tools	64	(5)	59
	18,289	(2,372)	15,915

11. PROPERTY, PLANT & EQUIPMENT (continued)

31 December 2014	Opening Balance 1 July 2014 $'000	Foreign Exchange Movement $'000	Additions $'000	Adjust-ment $'000	Depre-ciation $'000	Carrying Value 31 Dec 2014 $'000
Decommissioning asset (a)	1,825	(84)	-	(379)	(12)	1,350
Plant	8,546	(423)	15	-	(484)	7,654
Land	5,571	(282)	-	-	-	5,289
Furniture and fittings	136	(7)	4	-	(9)	124
Computer hardware	75	(4)	12	-	(13)	70
Motor vehicles	53	(2)	-	-	(12)	39
Machinery and equipment	460	(23)	14	-	(27)	424
Software	54	(3)	2	-	(7)	46
Buildings	296	(15)	52	-	(17)	315
Laboratory	463	(22)	-	-	(26)	415
Work in progress	111	(7)	25	-	-	129
Mechanical tools	57	(3)	8	-	(3)	59
	17,647	(875)	132	(379)	(610)	15,915

(a) The decommissioning and restoration asset represents Management's estimates of the decommissioning and restoration costs associated with the operation. It is expected that these costs will be incurred at the end of the life of the plant and mining operations. At 31 December 2014, SAFM recorded a $378,728 adjustment (31 December 2013: $1.8 million) to the provision. The provisions have been updated by estimating the cost of the decommissioning and restoration and extrapolating the estimates to the end of the estimated life of the project by applying an inflation rate of 6.56% per annum (30 June 2014: 6.3%). These estimates are then discounted to a present value, using a pre-tax discount of 11.65% per annum (30 June 2014: 10.9%). The decommissioning and restoration assets are amortised based on the current level of production at the mine over its estimated production life.

30 June 2014	Cost $'000	Accumulated depreciation $'000	Carrying Value $'000
Decommissioning asset (a)	1,899	(74)	1,825
Plant	9,946	(1,400)	8,546
Land	5,571	-	5,571
Furniture & Fittings	181	(45)	136
Computer Hardware	125	(50)	75
Motor Vehicles	136	(83)	53
Machinery and Equipment	543	(83)	460
Software	81	(27)	54
Buildings	325	(29)	296
Laboratory	541	(78)	463
Work-in-progress	111	-	111
Mechanical Tools	59	(2)	57
Total cost	19,518	(1,871)	17,647

11. PROPERTY, PLANT & EQUIPMENT (continued)

30 June 2014	Opening Carrying Value $'000	Foreign currency translation reserve $'000	Additions $'000	Adjust-ment $'000	Disposals $'000	Depre-ciation $'000	Carrying Value $'000
Decommissioning asset (a)	4,261	(92)	-	(2,314)	-	(30)	1,825
Plant	7,846	(116)	1,733	-	-	(917)	8,546
Land	-	58	5,513	-	-	-	5,571
Furniture & Fittings	135	(1)	20	-	-	(18)	136
Computer Hardware	60	1	37	-	(1)	(22)	75
Motor Vehicles	80	(2)	-	-	-	(25)	53
Machinery and Equipment	324	(3)	182	-	-	(43)	460
Software	64	(1)	5	-	-	(14)	54
Buildings	90	1	224	-	-	(19)	296
Laboratory	495	(9)	29	-	-	(52)	463
Work-in-progress	28	1	82	-	-	-	111
Mechanical Tools	-	1	58	-	-	(2)	57
	13,383	(162)	7,883	(2,314)	(1)	(1,142)	17,647

12. PROVISIONS

	31 Dec 2014 $'000	30 June 2014 $'000
Current provisions		
Employee benefits	503	601
Tax Provision	794	562
Other provisions	55	30
	1,352	1,193
Non-current provisions		
Rehabilitation and decommissioning provision (a)	2,046	2,416
Royalty payment provision	711	737
Tax Provision	128	162
Other Provisions	173	186
	3,058	3,501

(a) The Rehabilitation Provision represents Management's estimates of the decommissioning and restoration costs associated with the operation. It is expected that these costs will be incurred at the end of the life of the plant and mining operations. At 31 December 2014, SAFM recorded a $378,728 adjustment (31 December 2013: $1.8 million) to the provision. The provisions have been updated by estimating the cost of the decommissioning and restoration and extrapolating the estimates to the end of the estimated life of the project by applying an inflation rate of 6.56% per annum (30 June 2014: 6.3%). These estimates are then discounted to a present value, using a pre-tax discount of 11.65% per annum (30 June 2014: 10.9%). The decommissioning and restoration assets are amortised based on the current level of production at the mine over its estimated production life.

13. INTEREST-BEARING LOANS AND BORROWINGS

	31 Dec 2014 $'000	30 June 2014 $'000
Deutsche Bank Loan Facility (a)	18,802	16,249
Finance Costs (b)	(579)	(1,012)
	18,223	15,237

(a) On 25 July 2013, SAFM entered into financing agreements with Deutsche Bank for a two year loan of US$15 million. The terms and conditions include:

- Maturity date of 25 July 2015;
- No capital repayments during the term of the loan;
- 3% upfront fee;
- Interest of 11% per annum payable quarterly in arrears: and
- Fixed and floating security charges over assets of SAFM Limited, SAFM BVI and SAFM Mineracao Limitada.

As part of this facility, SAFM has issued Deutsche Bank 20.4 million, 5 year warrants representing 5% of its issued share capital at an exercise price of 7.3 cents per share. The loan was fully drawn down on 25 July 2013 and there are no scheduled capital repayments until the date of maturity which is 25 July 2015. The Company is taking steps to raise additional funding and re-finance its existing facility with Deutsche Bank. The company is in discussions with potential investors and existing shareholders regarding new funding options.

(b) Finance Costs relate to Loan Establishment Fee, Due Diligence Costs and Documentation expenses relating to the Deutsche Loan Facility including, 20.4 million, 5 year warrants representing 5% of its issued share capital at an exercise price of 7.3 cents per share.

(c) The amount of borrowing costs capitalised during the half year ended 31 December 2015 was $513,803 (30 June 2014: $501,890)

14. FAIR VALUE MEASUREMENT

Cash, trade and other receivables, prepayments and trade and other payables are short-term instruments in nature whose carrying value materially approximate the fair value. The carrying amounts and fair values of interest bearing liabilities at balance date are:

	31 December 2014		30 June 2014	
	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000
On Balance Sheet				
Non traded financial liabilities				
Bank loan	18,223	18,802	15,237	16,249

15. SHARE BASED PAYMENT RESERVE

	31 Dec 2014 $'000	30 June 2014 $'000
Opening balance	2,883	1,550
Capitalised Warrants	-	772
Share-based payment expense (a)	240	611
Closing balance	3,123	2,883

On 11 December 2014, Stephen Fabian a non-executive director resigned from SAFM's Board. Included within the share-based payment expense is a reversal of $19,849 related to the aforementioned resignation. During the period under review no new share options were issued.

16. RELATED PARTY TRANSACTIONS

Subsidiaries:

The consolidated financial statements include the financial statements of SAFM Limited and its subsidiaries listed in the following table:

		% OF EQUITY INTEREST		INVESTMENT	
	Country of incorporation	**31 Dec 2014**	30 June 2014	**31 Dec 2014 $'000**	30 Jun 2014 $'000
South American Ferro Metals Limited	British Virgin Islands	100%	100%	8,517	8,517
SAFM Mineracao LTDA	Brazil	100%	100%	19,153	19,153

Directors

The Directors' remuneration for the six month ended 31 December 2014 amounted to $583,542 (2013: $587,193).

During the period, SAFM did not issue Share Options to Directors and Key Management Personnel, refer to Note 15 – Share Based Payment Reserve.

17. CAPITAL COMMITMENTS

The capital commitments at 31 December 2014 are as follows:

	31 Dec 2014 $'000	30 June 2014 $'000
Contracted for	-	-
Authorised but not contracted for	2,746	17,352
	2,746	17,352

18. CONTINGENT ASSETS AND LIABILITIES

On 28 January 2008, SAFM purchased the surface rights from the vendor of the Mineral rights. At the date of the purchase, the vendor testified that he was the owner of surface rights, and was entitled to receive a consideration of US$2,791,250 ("the Surface Rights Instalment"), subject to the transfer of the surface rights into SAFM's name.

At this time a liability was recognised for the Surface Rights Instalment, and a corresponding asset, on the basis that it was believed that the transfer of the surface rights would be executed imminently and SAFM had the right of use and enjoyment of the surface rights. However his name did not appear on the property register (nº 8797 of 16 December of 1991) and this payment was not effected. The vendor is currently following a judicial process through the Brazilian Courts to ascertain the legal owner of these rights. SAFM is not a party to this process.

Under Brazilian law, SAFM has full surface right access to the property, being the holder of the Mineral rights. However, it is the Company's view that no liability exists for the Surface Rights Instalment until the owner of the surface rights has been established and title is transferred to SAFM. As such, the surface rights asset and liability have been reversed.

In the event that the vendor is awarded the surface rights, SAFM will settle the surface rights instalment and record the surface rights as a fixed asset in its books. In the meantime, SAFM is required to pay a royalty of 1% on net revenues until the title to the surface rights have been transferred. As the owner of the surface rights has not yet been established, SAFM currently deposits this amount into a restricted escrow account on a monthly basis.

19. EVENTS AFTER THE END OF REPORTING PERIOD

The further decline in iron ore prices during 2015 has placed significant pressure on SAFM's operating margins. SAFM has responded by implementing cost reduction initiatives.

Despite these positive steps, the cash generated from operations is not able to generate sufficient cash to repay SAFM's US$15 million obligation by its maturity on 25 July 2015. SAFM is currently working on a refinancing proposal with interested parties aimed at structuring an agreement to repay Deutsche Bank in the near future.
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DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of South American Ferro Metals Limited, I state that:

In the opinion of the Directors:

(a) The financial statements and notes of South American Ferro Metals Limited for the half year ended 31 December 2014, as set out on pages 9 to 21, are in accordance with the *Corporations Act 2001*, including:

 (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half year ended on that date; and

 (ii) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2011.

(b) There are reasonable grounds to believe that the Company and Group will be able to pay its debts as and when they become due and payable.

On behalf of the board

Stephen Turner

Sydney
16 March 2015

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Independent auditor's report to the members of South American Ferro Metals Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of South American Ferro Metals Limited, which comprises the statement of financial position as at 31 December 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year

Directors' Responsibility for the Half Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of South American Ferro Metals Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of South American Ferro Metals Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial report which describes the principal conditions relating to additional funding being required by the consolidated entity. This condition indicates the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Ernst & Young

Ernst & Young

Ryan Fisk
Partner
Sydney
16 March 2015