South American Ferro Metals

Value & Growth

Annual Report 2012

Why SAFM?

SAFM is the only ASX-listed pure play iron ore producer operating in Brazil, offering investors unique exposure to a growing South American iron ore market.

- Listing Date: 12 November 2010
- ASX Ticker: SFZ
- Market Capitalisation of $65m (6 Sept 2012)
- Top 20 Shareholders: 78.2% (Sept 2012)
- Revenue for FY2012: $17.7m
- Cash on hand: $5.4m (30 June 2012)

Investment Highlights

- Flagship 100% owned Ponto Verde Iron Ore Project commenced production in November 2010.
- JORC resource of 230.6 Mts at 44.52% Fe(1) with an Exploration Target of between 300 and 350 Mts at between 40% and 44% Fe.(2)
- Located in the heart of Brazil's prolific and historic Iron Ore Quadrilateral ~ 55km from Belo Horizonte in Minas Gerais state.
- Surrounded by established iron ore producers – Vale, CSN, Gerdau – and close to existing infrastructure.
- Local steel and pig iron producers provide current market for product.
- Experienced management team, with strong on-the-ground presence and local knowledge in Brazil.
- Bankable Feasibility Study (BFS) commenced for expansion of Ponto Verde to a capacity of 8 Mtpa. BFS to also consider a further 8 Mtpa expansion II to bring total licensed capacity to 16 Mtpa.
- Profitability growth from recent commissioning of Stage I Concentrator.
- Stage II Concentrator approved in Aug 2012 and expected commissioning in April 2013.

(1) As per ASX announcement dated 23 December 2011.

(2) The Exploration Target is based on the geological model associated with the defined JORC Resource as stated, and has been determined by a JORC Competent Person, Mr Philip Hopkins. It is uncertain if further exploration of the Exploration Target will result in the determination of Mineral Resources.

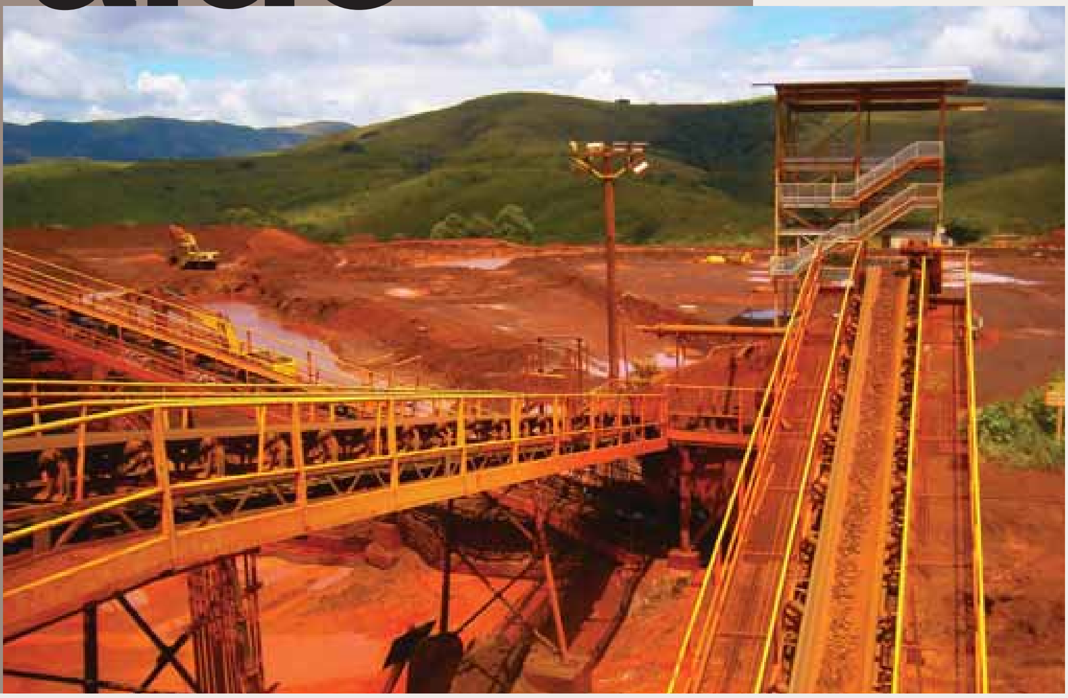
Annual General Meeting
The annual general meeting will be held on the 16th November 2012 at 10.00am (Sydney) at Level 27, AMP Centre, 50 Bridge Street, Sydney, NSW, 2000

South American Ferro Metals Ltd
ACN 128 806 977

Value & Growth

At SAFM this means...

Optimising Value



1.5mt

The existing licensed capacity for the plant is 1.5 million tonnes per annum.

FY2012 saw SAFM focus on extracting maximum shareholder value from the Ponto Verde Mine and its current 1.5 million tonnes per annum ("Mtpa") Run of Mine (ROM) operating licence while preparing the entire operation for sustained production excellence and growth.

Optimising Value has included many activities throughout the year, from its maiden JORC Resource Definition to the Stage I Concentrator start up, and many milestones in between. The focus has been to balance sustained safe operations with optimising profitability and preparing for future growth.

World Class Resource

Any successful mining company must understand and optimise mineral resource extraction. In December 2011, SAFM completed 3,300 metres of drilling as part of the Phase I Resource Definition Program, and announced the Company's maiden JORC Resource. Previously, a Brazilian classified estimate of 149 Mts at 39.2% Fe was reported. The maiden JORC Resource reported was 230 Mts at 44.5% Fe, including an indicated component of 60 Mts at 41.61% Fe and an inferred component of 170 Mts at 45.55% Fe.

This represented a material increase in Resource tonnage (+54%) and grade (+14%), and confirmed the world class resource base at the mine. Significantly, the Resource had not yet been drilled to the depth or to the northern, western or southern extents at year end.

Expanded Profitability

In June 2012, SAFM commissioned its Stage I Concentrator which will produce a high grade Concentrate, the site's third product. The completion of this project is a key financial driver as the Concentrate's +65% Fe content makes it the plant's most valuable product. The Company is targeting +210 kt to be produced annually from the Stage I Concentrator, with opportunities to increase production through further plant optimisation.

Sustained Operational Excellence

Many operational improvement projects were undertaken throughout the year, maximising profitability and optimising operational sustainability and mine effectiveness. Key milestones achieved are listed on page 4.

To maximise shareholder value, the Company's organic growth was a priority in FY2012. This meant further optimising value within the current 1.5 Mtpa operating licence, while establishing plans for the ultimate scale of future operations.

Organic Growth through optimisation of existing assets, both now and in the future, is fundamental to successful mining companies. SAFM achieved this through a planned and disciplined set of milestones that were achieved on or ahead of their target dates.

Growing the Resource Base

A long-term, sustained growth profile requires a suitable Resource base. As at 30 June 2012, the Phase II Resource Definition Program (3,500 metres of drilling) was 80% complete and on target to increase overall geological Resource confidence while simultaneously increasing the total Resource itself. Results are expected to be announced in Q2 FY2013.

Expanded Operations – Definitive Feasibility Study

When production commenced at Ponto Verde Mine in November 2010, expansion of the current licenced level of 1.5 Mtpa to 3 Mtpa and ultimately 6 Mtpa was planned. Early in FY2012, it became evident that the site capability greatly exceeded these plans which prompted a scoping study to determine the mine's expansion potential. A Definitive Feasibility Study followed in March 2012, focussing on a Stage I expansion to 8 Mtpa ROM throughput which will be followed by a further 8 Mtpa expansion to complete the growth profile. The completed study is due in Q3 FY2013.

Increased Profitability

The Stage I Concentrator started up in June 2012, adding a third saleable product to operations (with Lump and Sinter Feed). Stage II is underway with completion estimated for Q4 FY2013. This second stage of magnetic concentration will produce a second high grade concentrate (+64% Fe) to further increase the value extracted from the current operating licence, reduce tailings material and the environmental footprint, and enable processing of its stockpiled Concentrator Feed.

Further Site Optimisation

At FY2012 year end, several projects and initiatives were underway to further maximise profitability and optimise operational sustainability and effectiveness. Key initiatives include:

- Construction of on-site assay lab facilities.
- Replacement of screen decks.
- Installation of a second set of truck weight scales, and belt weightometers.

Organic Growth

+8mtp

Our objective is to upgrade the current plant capacity to 8 million tonnes per annum by FY2015.

Setting & achieving milestones

Milestones achieved in FY2012

- Reported 506 consecutive days no accidents or environmental incidents.
- Established new management team in July 2011.
- Achieved share performance milestones for Class B and C shares in December 2011.
- Enhanced Expansion Strategy from the initial prospectus level of 3 Mtpa to 8 Mtpa.
- Continuing site optimisation: commissioned a weight bridge, adding new drill core facilities and storage, replaced the southern road bridge, installed a fuel farm, cone crusher and temporary site infrastructure.
- Commenced infrastructure projects including new lab facilities.
- Completed Phase I Resource Definition Program in November 2011 ahead of time and on budget.
- Completed Maiden JORC Resource in December 2011 resulting in +54% tonnes and + 15% grade against previous Brazilian estimate.
- Commenced operating 24/7 in May 2012.
- Commissioned the Stage I Concentrator in June 2012.
- As at 30 June 2012, completed 85% of Phase II Resource Definition Program, which commenced in February 2012.
- Completed study of the Stage II Concentrator in June 2012.

Milestones planned for FY2013

- Announce Phase II JORC Resource by 31 December 2012.
- Complete toll treatment study by 31 December 2012.
- Complete Definitive Feasibility Study by 31 March 2013.
- Commission Stage II Concentrator on 1 April 2013.

Chairman's Report

Dear Shareholder

Following on from my initial Chairman's Report to Shareholders for June 2011, it is pleasing to confirm that during the past year South American Ferro Metals Limited ("SAFM") has progressed to full production at its Ponto Verde Mine project to the maximum allowed in its current operating licence of 1.5 million tonnes per annum (mtpa) Run of Mine ("ROM") production. Ponto Verde is located close to established mining operations, iron and steel plants and existing infrastructure in the Iron Quadrilateral region of Brazil and shares its lease boundary with Vale's Pico mine.

Following its planned Stage I drilling programme, SAFM announced a maiden JORC resource in December 2011 of 230 million tonnes mine at 44.5% iron, This Resource includes an indicated component of 60 Mts at 41.61% Fe and an inferred component of 170 Mts at 45.55% Fe.

Initially, ROM ore production from Ponto Verde began in late 2010 for sale to nearby operations. This gave SAFM time to commission its own plant and provided early cash flow. From February 2011, SAFM began producing Sinter Feed and Lump iron ore from its own crushing and screening plant with products sold to regional major iron ore and steel producers including Vale, CSN/NAMISA and Gerdau. Lump product is also sold to local independent pig iron producers. Fine ore tailings from this plant has been stockpiled and during FY2012 construction has been completed on a magnetic concentration plant to process this material into high grade concentrate suitable for pellet and steel production. A further concentration stage is planned for completion in FY2013 to recover additional high grade fines using high intensity magnetic separation. Overall mass recovery of 79% is expected which will deliver approximately 1.2 mtpa of total saleable products.

For the FY2012, 1,250,448 tonnes of ROM ore was mined with maximum plant throughput of more than 144,700 tonnes achieved during June 2012. Output decreased during the rainy season recorded from November 2011 to March 2012. During FY2012, sales of Lump and Sinter Feed products totalled 341,313 and 173,650 tonnes respectively and an initial output of concentrate was achieved and stockpiled for current sale in FY2013. Sales of ROM ore and of unprocessed fines continued during the year on a small scale to nearby operations.

During FY2012 the project total revenue was $17.7 million, and a net cash inflow of $4.1 million was achieved. Capital Expenditure during the year totalled $5.1 million, which included plant and infrastructure refurbishment, concentrator construction and resource drilling. The continuing strong cash flow performance is expected to support the ongoing development investment growth in FY2013.

SAFM is currently evaluating further growth opportunities at Ponto Verde with a view to maximise shareholder value and resource efficiency. The current activities at Ponto Verde include the establishment of the second stage concentrator upgrade, further resource definition, upgrade drilling, leading to engineering and economic studies for a definitive feasibility study to expand production to 8 Mtpa ROM to deliver up to 5.5 Mtpa of high grade saleable product.

In addition to the concentrator development and the longer term expansion plans, the Ponto Verde site has undergone a continuous improvement programme. An additional cone crusher in the processing facility has enabled further plant throughput assistance, while upgrades to site facilities included an upgraded access bridge and a site-based laboratory for quality control and production control.

Since commencing production, SAFM has achieved a number of important goals including the recruitment of senior staff, the completion of resource drilling and plant design and enhanced site infrastructure. Supervision of the mining operations, ore processing and road and environmental conditions has been established to high operational standards. During this time, Ponto Verde's production capability has been confirmed and progressed to expanded targets.

Philip Hopkins as Chief Executive Officer and Executive Director, has implemented progressive management systems, spearheaded the expansion and strengthening of SAFM's Leadership Team and initiated enhanced safety and industrial relations performance. The management team has achieved our targeted goals, utilising the initial shareholders' funds raised at listing and supplemented by operating cash flow.

The Board of SAFM was reconstructed during the year with Philip Re and Paul Lloyd, who were founding directors from SAFM's 2010 listing, retiring and Wayne Kernaghan appointed as an independent non-executive director. The Board is grateful to Philip and Paul for their support and encouragement during the start-up period.

SAFM's management team is now planning with confidence the future activities and production targets for Ponto Verde. We expect to enhance future growth and value with investment opportunities that are now available due to the company's solid platform, growth, and operational and management performance.

I would like to again record the enthusiastic continuing efforts of SAFM's management, staff and directors and thank them for their efforts which have resulted in SAFM continuing its successful and strong performance as a growing listed iron ore producer.

Yours faithfully

Terence Willsteed
Chairman

CEO's Report

This past year has been the first full year of operations for South American Ferro Metals (SAFM) and has been a very positive year in both the areas of operational performance and growth planning and determination. This has been a transformational year for the Company with the progression to full licenced ROM (Run Of Mine) and the announcement of the commencement of a Definitive Feasibility Study (DFS) to take the Ponto Verde Mine to 8 Mtpa (stage I expansion) and following this to 16 Mtpa (stage II expansion). These successes were underpinned by significant achievements in safety and site sustainability.

Safety and Environmental performance

Perhaps the "headliner" for the year was the Company's excellent Safety and Environmental performance. There were no reportable accidents or environmental incidents in the year which in turn extended this period of "Safe Production" to a continuous 506 consecutive days (at year end). The Company has operated from the commencement of production in November 2010 to the present without accident or incident, which by any operational standard is excellent. Health, Safety and the Environment (HSE) remains a key focus for SAFM and part of the Company's core values.

Operational Excellence

The mine site reached its full licenced capacity of 1.5 Mtpa ROM throughput in September 2011 through the move to a three shift/day shift arrangement and optimisation of the plant's operation. As a result of this focus the Company saw a quarter on quarter increase

ROM Production (t) per Quarter

in the mine's performance. There was a "dip" in the overall performance trend in December 2011 when the state of Minas Gerais went through a 1 in 100 year rainfall event. This period of extreme rain fall saw the region decrease its Iron Ore production to 50% of that planned and Vale announcing Force Majeure. SAFM was able to maintain a 70% of its planned production level in this period but like other producers in the area experienced lower than planned production in January to March 2012 due to the extended above average rainfall in this period. With all this to contend with the Company continued the upward production trend and finished the year with the June 2012 monthly production record of 144,700 ROM throughput and 53,200 total beneficiated production.

Sustainable Operations

There continues to be a strong focus on sustainable operations at PVM. To promote site optimisation and ensure production reliability various site improvements were implemented through the past year. Some of the more material improvements included: installation of additional electrical power, installation of additional water feed for the primary plant, commissioning of a weight bridge, addition of a fuel farm, addition of new drill core facilities, replacement of the secondary jaw crusher with a cone crusher, replacement of the southern haulage road bridge, installation of additional (temporary) site infrastructure and the commencement of the construction of an on-site assay lab. This focus and these site enhancements will help ensure safety is maintained and site production targets are consistently achieved.

Optimised Production

At the start of the year the mine's processing plant was configured to produce Lump and Sinter Feed. In June 2012 the Stage I Concentrator (medium intensity magnetic separation) was started up and commenced the production of a third product, Concentrate. This Concentrator allows the site to produce a third saleable produce from further refinement of the Primary Plant (Lump and Sinter Feed Plant) discharge material (fines) as well as providing a processing route for the site's stockpiled fines (~500,000 tonnes) that have been produced to this point (following the start up of the Primary plant in February 2011). The concentrate is 65% Fe and the most valuable product from the site. In addition, at the end of the Year the feasibility study to install a Stage II Concentrator (high intensity magnetic separation) was completed. This project was approved in July 2012 with the Stage II Concentrator to be started up in April 2013.

Resource Growth

Following the completion of the Phase I Resource Definition Program the Company announced (December 2011) its maiden JORC Resource of 230 Mts at 44.5% Fe. This Resource includes an indicated component of 60 Mts at 41.61% Fe and an inferred component of 170 Mts at 45.55% Fe. This was a material improvement to the prior Brazilian estimate with a 54% tonnage and 14% grade increase and confirmed the world class resource base at the mine. In February 2012, the Phase II Resource Definition Program commenced and will be completed in early FY2013. The Phase II program is targeting between 300 Mts and 350 Mts at between 40% and 44% Fe. It should be noted that the drilling to the end of the current drill program will not close off the ore body to depth or to the northern, western or southern extents.

Defined Organic Growth Strategy

Perhaps one of the most exciting developments during the year was the definition of the organic growth strategy for PVM. The initial plan (Prospectus 2010) was to grow the operation from its current 1.5 Mtpa level to 3 Mtpa and then possibly to 6 Mtpa. Upon review of the ore body and Leadership Team capability and the completion of a preliminary evaluation, a decision was taken to change the growth stages to 8 Mtpa and then to 16 Mtpa. This growth strategy will be implemented with an "off-the-shelf" approach to reduce the time to commissioning (first 8 Mtpa by end 2015) and then 16 Mtpa. The DFS for the first Stage (8 Mtpa) was commenced in March 2012 and will be completed in March 2013.

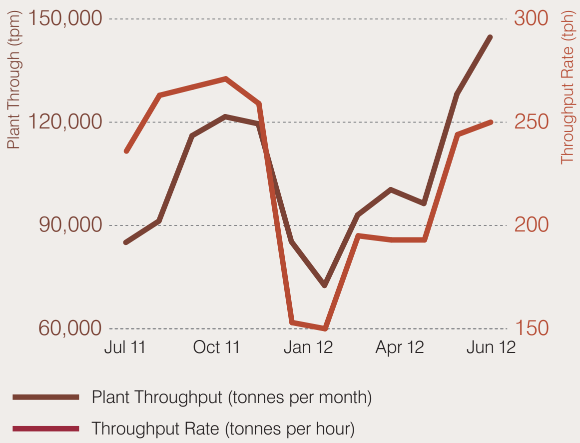
What's next?

With the understanding and commencement of the optimisation of the mine's current 1.5 Mts licence (Stage I & II Concentrators), the operation's organic growth profile defined and under study (8 Mtpa and then 16 Mtpa) and the continuing and improving positive Company cash flow and profitability, attention has been given to what possible projects outside the PVM asset may fit into the overall growth profile of the Company. Work will continue in this area into FY2013.

Yours Faithfully

Philip Hopkins
Chief Executive Officer

Throughput



JORC Resource

JORC Resource of 230.6 Mts at 44.5% Fe including:
Indicated Resource of 60.6 Mts at 41.6% Fe
Inferred Resource of 170 Mts at 45.5% Fe
Target Resource of between 300 and 350 Mts at 40% to 44.5% Fe

Revenue and Profit

	FY2012	FY2011
Sales Revenue $'000	17,693	3.544
EBITDA $'000	3,371	(10,650)
EBIT $'000	3,800	(10,650)
NPAT (Reported) $'000	2,309	(7,735)
EPS (cents)	0.68	(4.52)

Ponto Verde Mine – Geology and Resource

FY2012 was a milestone year for SAFM regarding Ponto Verde Mine's ('PVM') resource definition and our increased understanding of the deposit and area. The Phase I Resource Definition Program (RDP) was completed and the maiden JORC Resource announced.

The Phase I RDP resulted in the December 2011 announcement of a maiden JORC Resource of 230 Mts at 44.5% Fe, with grade cut off of 30% Fe applied. This Resource includes an indicated component of 60 Mts at 41.61% Fe and an inferred component of 170 Mts at 45.55% Fe.

During the year, the Phase II RDP was defined and has commenced in February 2012. This program is designed to increase the overall geological confidence of the Resource, focusing primarily on the measured and indicated resources required for the Expansion Feasibility Study Reserves. This second phase drill program was 85% complete at year end.

Ponto Verde Mine Geology

The PVM area is situated on the southern edge of the São Francisco Craton, which is located within the Iron Quadrangle (a Brasiliano-age geotectonic unit surrounded by orogenic belts).

The mining concession area is on the inverted eastern flank of Sinclinal da Moeda, which demonstrates NE–SW structuring and has a dive ranging from medium to high (45°–80°).

The manganese and iron deposits from the area relate to the Gandarela and Cauê formations respectively, and both belong to the Itabira Group.

Geomorphologically, the mining concession area´s central and northern zones are characterized by rolling terrain with rounded shapes. Topographically lower portions appear to the west with the formation of a relatively closed valley. The area's highest topographic portions are to the south-east of the Serra das Serrinhas.

Resource Drilling to Date

Three periods of resource definition on the PVM deposit have occurred to date, including the current Phase II RDP.

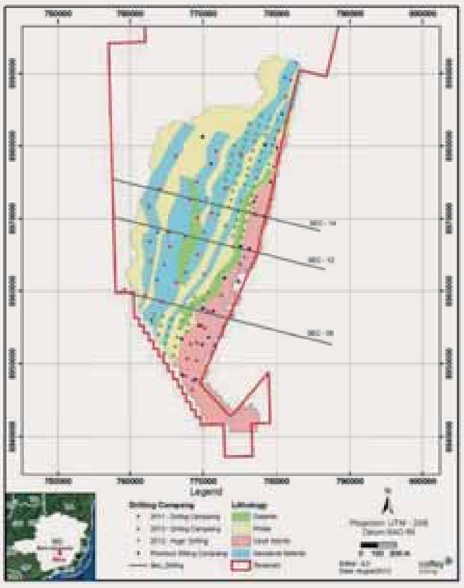
The initial period incorporates all historic drilling to June 2011 and includes drill assays for over 3,100 metres of drilling, mostly to a depth of 70 metres or less.

This was followed by the Phase I RDP, which included 3,235 metres of drilling and resulted in the December 2011 maiden JORC Resource announcement. This phase also validated the historical drilling to a JORC-compliant level.

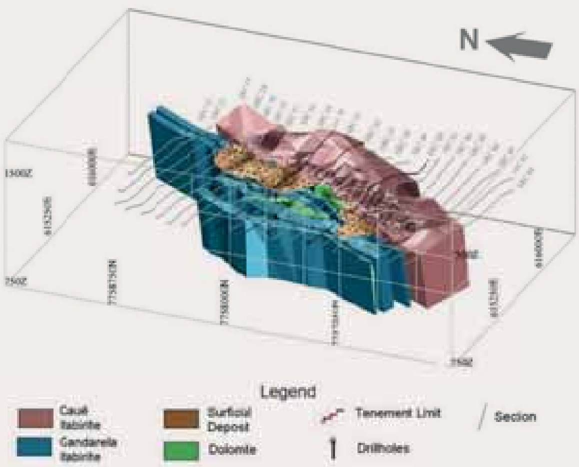
The third resource definition period, the Phase II RDP, was 85% complete at year end and will include over 3,500 metres of drilling.

A combined total of some 9,500 metres have been drilled on this resource to date with the majority of the holes being drilled to a depth of 70 metres. Deeper drilling has confirmed that the resource extends from 300 to 320 metres, and remains open to the north, south and west.

Total set of drill holes to date



Deposit isometric showing ore zones



Typical geological sections – Sections 8, 12 and 14

Maiden JORC Resource

Mineral Resources – SAFM – Ponto Verde Project – Global Resource
Block Model: 50m x 25m x 10m (25m x 12.5m x 10m) – Grade cut-off applied: 30% Fe

Lithology	Resource Class	Tonnes (Mt)	Fe (%)	SiO2 (%)	Al2O3 (%)	Mn (%)	P (%)	LOI (%)
Cauê Group – Global Resource								
	Indicated	18.9	48.12	21.26	2.08	2.070	0.110	4.35
	Inferred	59.9	48.93	21.11	2.33	1.400	0.100	4.08
Rich Itabirite	Subtotal	78.8	48.74	21.15	2.27	1.560	0.100	4.15
	Indicated	38.1	37.44	40.57	1.59	1.100	0.060	2.6
	Inferred	30.7	36.56	42.37	1.56	0.880	0.050	2.41
Poor Itabirite	Subtotal	68.8	37.05	41.37	1.58	1.000	0.050	2.51
	Indicated	57.0	40.99	34.16	1.75	1.422	0.077	3.18
	Inferred	90.6	44.74	28.31	2.07	1.224	0.083	3.51
Total	Subtotal	147.6	43.29	30.57	1.95	1.299	0.077	3.39
Gandarela Group – Global Resource								
	Indicated	3.5	51.92	11.91	6.15	1.910	0.060	4.57
	Inferred	58.0	49.72	15.48	5.58	2.030	0.070	4.36
Rich Itabirite	Subtotal	61.4	49.85	15.28	5.61	2.020	0.070	4.37
	Indicated	0.1	36.59	26.15	10.78	0.690	0.040	6.29
	Inferred	5.4	36.19	35.57	4.84	2.080	0.040	3.36
Poor Itabirite	Subtotal	5.5	36.19	35.4	4.95	2.050	0.040	3.41
	Indicated	0.0	0	0	0	0	0	0
	Inferred	16.1	38.26	30.03	1.21	0.940	0.060	6.33
Breccia	Subtotal	16.1	38.26	30.03	1.21	0.940	0.060	6.33
	Indicated	3.6	51.49	12.31	6.28	1.876	0.059	4.62
	Inferred	79.4	46.48	19.79	4.65	1.813	0.066	4.69
Total	Subtotal	83.0	46.70	19.47	4.71	1.813	0.066	4.69
Total – Global Resource								
	Indicated	60.6	41.61	32.88	2.02	1.449	0.076	3.26
	Inferred	170.0	45.55	24.33	3.27	1.499	0.075	4.06
Total	**Total**	**230.6**	**44.52**	**26.58**	**2.94**	**1.484**	**0.073**	**3.86**

Bernardo Horta de C. Viana, BSc(Geo) MAIG, of Independent Mining Consultant, Coffey Mining, as a Competent Person, has completed the Ponto Verde Mine Independent JORC Resource Determination Report.

Phase II Resource Definition Program

In December 2011, the Company announced a maiden JORC Mineral Resource of 230 Mts at 44.5% Fe, indicating the Ponto Verde resource as a world-class asset, broken down into an indicated component of 60 Mts at 41.6% Fe and an inferred component of 170 Mts at 45.5% Fe.

The Definitive Feasibility Study ('DFS') currently underway will outline the expansion of the PVM from 1.5 Mtpa ROM throughput to 8.0 Mtpa. The Phase II RDP was structured to increase the measured and indicated resource to support the DFS, and will provide further understanding of the deposits full potential.

The Phase II RDP objectives are:

1. To increase the JORC measured and indicated resource in support of the DFS.
2. To increase the overall JORC resource to further demonstrate the deposit scale.

Resource Target

The exploration target of the PVM deposit is 300 Mt– 350 Mts at between 40.0%–44.5% Fe [(1)]. This potential is based on the Phase I RDP outcomes and the maiden JORC Resource.

It is important to note that the drilling to date (including Phase II) will not fully define or 'drill off' the resource to depth or to the north, south or west. The primary focus of the drilling so far, including Phase II, has been to understand and define the deposits impact on the next 10–15 years of operations, including planned expansions. The majority of the drilling therefore reaches a depth of only 70 metres. Confirmation that the resource is some 300–320 metres deep means there is great potential that it may ultimately allow for expanded production levels and a mine life past 30 years.

Competent Persons' Statement

The "Competent Person" who prepared the mineral resource estimates presented in this report is Mr Bernardo Horta de Cerqueira Viana, who is a geologist, with 10 years of geological and mining related experience ranging from execution, management and coordination of geology projects, to resource estimation in a variety of commodities including iron, is independent of SAFM and is a member in good standing of the Australasian Institute of Mining and Metallurgy ('AusIMM'). Please note that statements relating to past milestones or future plans or programs remain the responsibility of SAFM and are not related to the Competent Person authority in this matter.

The information in this report that relates to exploration results is based on information compiled by the Competent Person. The Competent Person has sufficient experience relevant to the style of mineralisation and types of deposit under consideration to qualify as a Competent Person as defined by the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ('JORC').

9,500m

A combined total of some 9,500 metres have been drilled, mostly to a depth of 70 metres.

(1) The Exploration Target is based on the geological model associated with the defined JORC Resource as stated, and has been determined by a JORC Competent Person My Philip Hopkins. It is uncertain if further exploration of the Exploration Target will result in the determination of Mineral Resources.

Operations Report

The first full year of production at SAFM's flagship operation, the Ponto Verde Mine (PVM), was successful but not without its challenges. The year's highlights include, among others, the introduction of a 3rd working shift and the start-up of the Stage I Concentrator.

Challenges were experienced in December 2011, with the Iron Quadrangle in the State of Minas Gerais encountering a 1-in-100-year rain event that resulted in the industry halving production and Vale announcing force majeure at their operations. The March 2012 quarter was also unseasonably wet, causing further operational challenges.

Despite these setbacks, the year proved successful with continued excellent operations and sustainability and the addition of the mine's third saleable product from the Stage I Concentrator.

Mine Operations Overview

The PVM is operating under a ROM processing licence of 1.5 Mtpa that permits wet processing of the ore. Mining occurs on a day shift basis and processing continues on a three shifts per day basis. Both operate seven days a week.

Mining is conducted on a contract basis in which a 'free dig' (no drilling or blasting required) mining is undertaken by three excavators feeding a fleet of haul trucks. The strip ratio ranges from 0.2 to 0.8 (tonnes of waste per tonne of ore) and averaged 0.6 for the year. A strip ratio of 0.2 is planned for FY2013.

The Processing Plant front end consists of a two-stage crushing circuit. Both stages include wet screening, which occurs in a closed circuit, to produce Lump (10mm – 28mm) and Sinter Feed (2mm –10mm).

The Primary Plant discarded product (Fines <2mm) were stockpiled until June 2012 when the new Stage I Concentrator commenced using them to produce a third product, Concentrate.

The Concentrator is a two-drum medium-intensity wet magnetic separator that is fed by the Primary Plant as well as stockpiled Fines via an external hopper and conveyor belt. The processing of this fine material represents a significant advantage for PVM as the high quality Concentrate it produces (65% Fe) provides a high grade iron ore product that would be suitable for the export market.

Ponto Verde Mine Product Range

Product	Size	Quality
Lump	-28mm + 10mm	60.0 – 60.5% Fe
Sinter Feed	-10mm + 2mm	59.5 – 60.0% Fe
Concentrate	<2mm	64.5 – 65% Fe

Production Challenges

Despite SAFM introducing a third working shift as well as several significant site advancements, FY2012 was not without its challenges. A 1-in-100-years rain event reduced production in the Iron Quadrangle by 50% in December 2011.

PVM was able to maintain a 70% production level due to good wet weather preparation, however, the impact on site was evident. The unseasonably wet weather continued through the March 2012 quarter with further impacts on production.

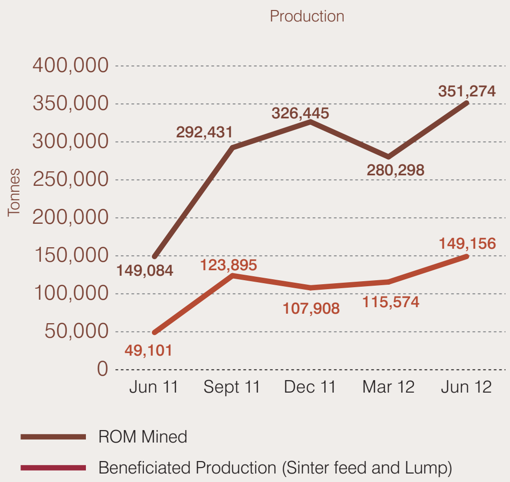
Another challenge for Lump and Sinter Feed production was the fine nature of the ore. Fine ore presents both a challenge and a benefit. While it creates difficulty in producing the planned Lump and, at times, Sinter Feed quantities, it is also high grade iron ore product that the new Concentrator will progress and ultimately produce a higher margin product.

Production

In spite of these challenges, the following production outcomes were achieved:

Ponto Verde Mine FY2012 Production Summary

Production Stream	Tonnage – % – ratio
Total ore mined (ROM)	1,250,448
Waste removed	750,269
Stripping ratio (t/t)	0.6
ROM processed on site	1,249,353
Primary Plant availability (%)	81%
Small Lump produced	182,998
Sinter Feed produced	313,534
Concentrate produced (commenced June 2012)	1,683
Fines stockpiled (-2 mm) (dry basis)	330,612



Operational Excellence and Sustainability

SAFM remained strongly focused on operational excellence and site sustainability throughout FY2012. In one of our most significant achievements on site, the Company achieved 506 consecutive days (since operations commencement), without an accident or environmental incident at year end.

During the year, the following mine operation infrastructure upgrades were completed:

- Installation of additional water supply.
- Installation of additional power capability.
- Commission of a weight bridge.
- Construction of a fuel farm.
- Construction of a core shed and storage facility.
- Replacement of the southern bridge.
- Replacement of secondary jaw crusher with a cone crusher.
- Installation of temporary office and food service facilities
- Construction and start-up of Stage I Concentrator.

One of the most notable advancements on site was the addition of the Stage I Concentrator. As well as the financial benefit of a third product, the additional processing of the Fines material reduces the site's environmental footprint and improves the stewardship of the resource.

Additional site upgrade projects that are still in progress include:

- Construction of an on-site assay laboratory.
- Installation of in-line conveyor belt weightometers.
- Evaluation of more permanent infrastructure upgrades.
- Design and construction of the Stage II Concentrator.

The Way Forward

In addition to site upgrade projects ongoing at year end, SAFM will install a second weight bridge, a water recovery decant tower and additional temporary site facilities in FY2013. Site housekeeping and employee safety will remain fundamental to PVM operations.

SAFM will remain focussed on enhancing value by commissioning the Stage II Concentrator and the full extraction of saleable iron ore from the resource base while reducing the environmental footprint and improving resource stewardship. SAFM is committed to operating at the highest possible efficiency level up to the 8 Mtpa expansion schedule in FY2015.

Health, Safety and Environment

The SAFM Leadership Team prioritises the well-being of our people through our Health, Safety and Environment (HSE) program. This remains our core value and our primary operational concern. Since commencing operations, the company has achieved 506 consecutive days (at 30 June 2012) of safe production without a single accident or environmental incident, and we consider this to be the year's greatest highlight.

Safety Focus

Our approach to site safety uses current safety knowledge to systematically advance our safety procedures in ways that all site workers can understand, accept and adopt. Together with a focus on site housekeeping, efficient site design and implementation of temporary facilities, the company has attempted to address all the procedural and behavioural aspects of our 'safety formula'. It also ensures that safety activities are fully embraced and are sustained over time.

Developments in SAFM's safety approach this year included:

- Holding weekly safety 'Tool Box' talks with all workers based on site.
- Introducing site risk assessment inspections and follow up.
- Adopting personal protective equipment standards.
- Rotating area inspections and operation discussions.
- Installing safety railings around the water reservoir.
- Defining and increasing all road safety berms and safety signage.
- Introducing mining contractor safety reviews and assessments.
- Initiating a mining contractor equipment safety inspection program.

Environmental Stewardship

SAFM's environmental programs focus on achieving the requirements outlined by the Public Minister in association with the mining licence. Within these commitments, our environmental activities this year included:

- Rehabilitating designated erosion areas.
- Re-vegetating defined areas.
- Backfilling three mining areas within the tenements south of the site (ongoing).
- Installing a 26 km fence surrounding the adjacent environmental park (ongoing).

These projects were or will be completed ahead of commitments made to the Environmental Ministry and drew positive feedback on both site inspections made by the Public Minister.

Additional key environmental programs implemented in FY2012 included:

- An on-site recycling program.
- A monitoring program for all water resources.
- A control program for atmospheric emissions.
- Environmental monitoring of air quality and noise levels.
- Installing an oil and water separation system.

Looking Ahead

The future of HSE at SAFM is straightforward; the Company will continue to keep employee well-being at the centre of all safety and improvement efforts, and will endeavour to ensure that all employees embrace the continual improvements.

Safety procedures and standards will be customised to our specific requirements and will be incorporated into mine operations on a priority basis with a ‘fit for purpose’ approach.

Our environmental stewardship and performance will see completion of the mining licence requirements on or ahead of schedule, and we will continue on seeking ways to improve our overall environmental focus, performance and outcomes year after year.

Team SAFM

Sydney Office

Dion Cohen
Philip Hopkins
Teresa Garces
Yan Santos

Belo Horizonte Office

Alcilene Batista Da Silva
Aline Aparecida De O Santos
Angela Maria De Castro Lima
Antonio Henrique Cunha Santos
Breno Pereira Fagundes
Carla Carvalho
Claudia Carvalho
Daniel Camargo Da Silva
Daniel Goncalves
Diogo Santos
Eduardo Freitas
Fabiano Batista Figueiredo
Flavia Pires Ferreira
Guilherme Wagner Alves Lage
Jose Assuncao Braga Neto
Jose Marcio Paixao
Josyany Ferreira Meireles
Karla Amorim
Leandro Julio De Queiroz
Luzanira Rocha Coutinho Souza
Marcia Helena Gonzaga Neves
Mariana Nunes Lino Da Costa
Patricia Lane Cruz
Patricia Mesquita De Oliveira
Paulo Cardozo
Phillipe Braian De Oliveira
Rodolfo Dornelas P De Oliveira
Rogério Caporali
Rozylangela Gessica Da Silva
Rubens Campos
Sergio Luiz Mendes

Beneficiation Plant

Amauri Pereira Passos
Anderson Carlos De Oliveira
Andre Luiz Gonzaga
Anibra Severino Borges
Celio Liberato Gomes
Claudio Andre Pires
Edmar Marques Da Silva
Elisson Francisco Da M Brito
Erli Jose Da Cruz
Fabio Junior Dias Da Silva
Francisco Jose De Paula
Geraldo Francisco R De Paula
Joao Batista De Souza
Joelson Lima Dos Santos
Jose Francisco De Oliveira
Jose Francisco Ferreira
Jose Francisco Ferreira Junior
Jose Maria Estevam
Lucio Alves Da Silva
Marcelo Raimundo Pio
Jose Maria Ribeiro Da Silva
Juarez Marcos Rodrigues Paula
Jurandir Rodrigues Da Silva
Maria Isabel Goncalves
Nilton Alves Da Silva
Paloma Pereira Pedrosa
Rafael Luiz De Vales
Ronaldo Da Silva Prado
Walmiclei Moraes Da Costa
Wanderleia Custodio

Concentrator Plant

Acyr Pedro Pedrosa
Alison Da Costa Santos
Ataide Pires Dias
Joao Batista Pinto
Jucimar De Lima Souza
Jurcelone Aparecido Soares
Lorhan Daniel Silva
Maria Da Conceicao Martins
Michelo Cristiano De Oliveira
Mucio Alexandre Castro Junior
Tarcisio De Oliveira Lourenco
Thiago Dos Prazeres C Maia
Vinicius Emanuel Damaso
Waldiclei Moraes Da Costa
Waldinei Moraes Da Costa
Wellington Julio Da Silva

Mining

Francisco Coelho De Magalhaes
Gleiciane Maria Da Silva
Gustavo Aparecido Beraldo Sous
Julio Cleiton Soares
Natalia Batista Pereira
Norton Fernandes De Oliveira
Reinaldo Candido Da Rocha
Valter Goncalves
Wellington Jesus De Oliveira

‘People are the company’s key asset’

Key Management

Philip Hopkins

Chief Executive Officer (appointed on 9 May 2011) and Executive Director (appointed on 16 November 2011)

Mr Hopkins holds a Bachelor of Engineering (Mining) and is a graduate of the Banff School of Advance Management. Mr Hopkins is a registered professional engineer. Mr Hopkins' 30 years in the mining industry has included experience in technical, projects, operations and corporate arenas. His career has included work with Cominco Limited, Falconbridge Limited, Placer Dome Limited, BHP Billiton Limited and St Barbara Limited and has included international postings in Canada, Papua New Guinea, South Africa and Australia. Mr Hopkins' experience includes both underground and open pit mining and covers the commodities of Copper, Nickel, Gold and Iron Ore.

Dion Cohen

Chief Financial Officer and Company Secretary

After qualifying as a Chartered Accountant at Ernst & Young in 1995, Mr Cohen was involved in corporate finance and private equity. His experience ranges from mergers and acquisition structuring, to capital raisings and management of mining companies in private equity ownership. Mr Cohen held the position of Chief Financial Officer of International Ferro Metals Limited; a company listed on the Main Board of the London Stock Exchange and has held board positions in both listed and unlisted companies. Mr Cohen is a Director of Formulate Financial Services Pty Ltd, a company that provides corporate finance services to junior mining companies.

Helvécio José Veloso Pires

Chief Operating Officer (resigned on 7 September 2012)

Mr Pires holds a degree in mining engineering and a postgraduate degree in environmental engineering from the University of Minas Gerais. He has also completed an MBA in Business Management from the Dom Cabraol Foundation. Mr Pires has more than 23 years' experience in mine planning, operations and environmental management, working most recently in resources and reserves certification at Runge/Pincock, an Australian based mining consulting company. Over his career, Mr Pires has worked with some of the largest iron ore producers in Brazil, including Vale, MMX, Caemi and MBR.

José Márcio Paixao

Chief Development Officer (appointed 17 August 2011)

Mr Paixao holds a degree in Mining engineering from the University of Minas Gerais. He has an MSC in chemical engineering and a PhD in Metallurgy/Electrochemistry from Paris VI University in France. He has worked in mining and metallurgy for more than 26 years, including spending more than a decade with Vale, the world's biggest iron ore producer. Most recently, he worked as Chief Operating Officer for Vancouver-based Earth XM Mining Corp.

Eduardo Freitas

Administration and Purchasing Manager

Mr Freitas holds a Bachelor of Economics degree from the University of Sao Joao del Rei. He worked at Companhia Siderugica Nacional ("CSN"), a major steel-maker in Brazil for over 8 years in the area of iron ore exportation. In 2009 he took on a role as economic specialist for NAMISA, a jointly controlled company of CSN.

Board of Directors

Terence Willsteed
Chairman

Mr Willsteed holds a Bachelor of Engineering (Mining) with Honours and a Bachelor of Arts. He is a Fellow of the Australasian Institute of Mining and Metallurgy, a Registered Member of the Society of Mining Engineers and a Member of the Australian Institute of Company Directors. Since 1973 he has been the principal of consulting mining engineers, Terence Willsteed & Associates.

Mr Willsteed's 50 year career in the mining industry has included senior operational and engineering management positions with Zinc Corporation, Mt Isa Mines Limited and Consolidated Goldfields Australia Limited. His recent public directorships include European Gas Limited, Niuminco Group Limited, International Ferro Metals Limited, Citigold Corporation Limited, Vantage Goldfields Limited, Timpetra Resources Limited and Goldsearch Limited. In his consulting experience, Mr Willsteed has been involved in the assessment and development of a wide range of mineral, coal and oil shale projects, and has participated in the management of developing and operating mineral projects both in Australia and internationally.

Alan Doyle
Non-executive Director

Mr Doyle graduated as a geologist in 1979 and worked as a field geologist before entering the financial services industry in 1984. In the early 1990's, Mr Doyle founded Turnbull Doyle Resources, a private equity and investment banking company that took positions in small and emerging resource companies. During his time at Turnbull Doyle Resources, Mr Doyle identified and managed these assets prior to either a trade sale of float on international stock exchanges. Several of these early assets in West Africa, Australia and Russia have become significant mines and projects. More recently, Mr Doyle's company, Africa Pacific Capital, has founded and funded a number of early stage mining ventures principally in South Africa and South America which have also grown into significant mining companies.

Wayne Kernaghan
Non-executive Director (appointed 26 June 2012)

Mr Kernaghan is a member of the Institute of Chartered Accountants in Australia, a Fellow of the Australian Institute of Company Directors, and member of the Institute of Chartered Secretaries and Administrators.

Mr Kernaghan brings to SAFM more than 25 years' experience in the mining industry as a Director and Company Secretary with a number of resources companies listed on the Australian Securities Exchange and London Stock Exchange. Companies that Mr Kernaghan has worked with include International Ferro Metals Limited, Cullen Resources Limited, Gulf Industrials Limited and Vantage Goldfields Limited.

Stephen Turner
Non-executive Director

Mr Turner is a Chartered Accountant. He was the Chief Executive Officer of International Ferro Metals Limited for seven years. International Ferro Metals Limited is a South African based integrated mining and smelting company which produces over 3% of global ferrochrome supply and is listed on the London Stock Exchange. Mr Turner is now its Non-executive Deputy Chairman.

Mr Turner is the Non-executive Chairman of Vantage Goldfields Limited, an Australian gold company operating in South Africa, a Non-executive Director of Iluka Resources Limited, the world's largest producer of zircon and a Non-executive director of Timpetra Resources Limited, a junior gold exploration company. Mr Turner has delivered resource projects in Australia, Southern Africa, Fiji, New Caledonia and the Solomon Islands. He was a founding director of the Australian subsidiary of PSG Investment Bank, then South Africa's fifth largest investment bank.

Stephen Fabian
Non-executive Director

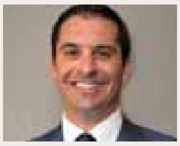
Mr Fabian is the founder of SAFM Brazil, and is a qualified mining engineer with over 25 years of experience in the mining finance sector. His career spans across the mining and finance industries and includes past positions with County NatWest in Australia and London and Rock Capital Partners in the United Kingdom.

Mr Fabian was instrumental in the founding of Ferrous Resources Limited, a company developing iron ore properties in Brazil. He is an advisor to the Baker Steel Resource Trust ("BSRT"), which is listed on the London Stock Exchange. BSRT presently holds an investment in SAFM. He is also Chairman of Kincora Copper Limited and a non-executive director of REB Gold and Ironstone Resources.

Paul Lloyd
Non-executive Director (resigned 28 May 2012)

Mr Lloyd is a Chartered Accountant with over 25 years' commercial experience. Mr Lloyd operates his own corporate consulting business, specialising in the area of corporate, financial and management advisory services. After commencing his career with an international accounting firm, he was employed for approximately ten years as the General Manager of Finance for a Western Australian based international drilling contractor working extensively in Asia and Africa.

In 2006, Mr. Lloyd was involved in the listing of Beacon Minerals Limited and Target Energy Limited on the ASX. Mr Lloyd is currently a director of Beacon Minerals Limited, Sunseeker Minerals Limited and Firestrike Resources Limited.



Philip Re
Non-executive Director (resigned 28 May 2012)

Mr Re is a Director of Regency Corporate Pty Ltd where he provides corporate advisory services. Mr Re is a Chartered Accountant and a Chartered Secretary. He is a member of the Institute of Company Directors.

In recent years Mr Re has been involved as a director and company secretary for a number of public companies involving transactions in the mining exploration industry. Currently Mr Re is the company secretary of Promesa Limited and Firestrike Resources Limited.

Mr Re previously held roles as a director of Meridian Minerals Limited and acted as company secretary for Transit Holdings Limited. Mr Re is Chairman of the charity organisation "The Better Life Foundation WA".

Corporate Governance Statement

The Board of Directors are responsible for guiding and monitoring the Company on behalf of shareholders and are accountable to them for creating and delivering value through the effective governance of the business.

SAFM's vision is to be a highly profitable, safe and growing iron ore producer that is the Company of choice for employees, investors, customers and the communities we work in. To achieve the Company's vision the Board of Directors and Leadership Team will keep the effective collaboration between all employees, contractors and consultants as their main priority. The leadership of the Company will guide and support the maximisation of profitability while ensuring operations are sustainable and growth opportunities are captured in a timely and efficient manner. This will be performed under an umbrella of effective corporate governance standards.

This Corporate Governance Statement outlines the Company's corporate governance systems, procedures and practices. As an Australian Securities Exchange ("ASX") listed Company, the Corporate Governance Standards stipulated in the *Corporations Act 2001* and the ASX Listing Rules and the recommendations provided by the Australian Securities Investments Commission (ASIC) policy and the ASX Corporate Governance Council's Corporate Governance Principles and recommendations have been used as the basis to develop SAFM's corporate governance systems, procedures and practices as applicable to the Company. The Board continues to assess these in line with the Company's development and growth to ensure that SAFM continue to deliver value and remains accountable to its Shareholders.

1. Board of Directors

1.1. Roles and responsibilities

The Board Charter outlines the Board's authority and responsibilities to determine all matters relating to the strategic direction and the operation of the Company including establishing goals for management, policies and practices. The monitoring and ultimate control of the business of the Company is vested in the Board which is specifically responsible for the following:

- Appointment, evaluation, rewarding and if necessary the removal of the Chief Executive Officer, Chief Financial Officer and the Company Secretary;
- In conjunction with management, the development of corporate objectives, strategy and operational plans and approving and appropriately monitoring plans, new investments, major capital and operating expenditures, capital management, acquisitions, divestitures and major funding activities;
- Establishing appropriate levels of delegation to the Chief Executive Officer to allow him to manage the business efficiently;
- Monitoring actual performance against planned performance expectations and reviewing operating information at a requisite level, to understand at all times the financial and operating conditions of the Company;
- Monitoring the performance of senior management including the implementation of strategy, and ensuring appropriate resources are available;
- Via management, an appreciation of areas of significant business risk and ensuring that the Company is appropriately positioned to manage those risks;
- Overseeing the management of safety, occupational health and environmental matters;
- Satisfying itself that the financial statements of the Company fairly and accurately set out the financial position and financial performance of the Company for the period under review;
- Satisfying itself that there are appropriate reporting systems and controls in place to assure the Board that proper operational, financial, compliance, and internal control processes are in place and functioning appropriately;
- Ensuring that appropriate internal and external audit arrangements are in place and operating effectively;
- Having a framework in place to help ensure that the Company acts legally and responsibly on all matters consistent with the code of conduct; and
- Reporting to shareholders.

In conjunction with Management, the Board of Directors ensures that the Company acts legally and responsibly on all matters.

As determined by the Company's Corporate Governance Policies, the role of the Chief Executive Officer and Managing Director will be performed by only one person given the Company's current scope and present size. The responsibility for the day-to-day management and administration of the Company is delegated by the Board to the Chief Executive Officer.

The Board ensures that the Chief Executive Officer and the Management team are appropriately qualified and experienced to discharge their responsibilities effectively and periodically assess the performance of the Executive Management.

The following mechanisms are in place to ensure the alignment of Management's objectives with the objectives of the Board:

- Board approval and monitoring of a strategic plan;
- Approval of annual and semi-annual budgets and monitoring actual performance against budget; and
- Presentations to the Board by financial, operations, exploration and marketing management.

In the spirit of transparency and trust, there will be regular reporting and open dialogue between the Chief Executive Officer and the Board.

1.2. Membership

The Board currently comprises six members; two including the Chairman are independent non-executive directors. Refer to section 1.8 for the factors to assess whether a director is independent.

On 28 May 2012, Mr Re and Mr Lloyd, both Non-Executive Director of the Company resigned from the Board. On 26 June 2012, Mr Kernaghan was appointed to the Board.

With the majority of the Board holding non-executive positions, the Board ensures it has extensive access to management and maintains a regular dialogue with the Senior Management team. In addition, the Chief Executive Officer and the Chief Financial Officer attend monthly Board meetings where they make presentations and participate in discussions.

This is not in compliance with Principle 2 of the ASX Corporate Governance Principles and Recommendations which states that the majority of the Board should be independent. This is something the Board continues to monitor on a regular basis, however at the present time the composition is the most appropriate for the current level of business operations.

1.3. Skills, knowledge, experience and attributes of directors

The Board considers that a diverse range of skills, experience and knowledge are fundamental to achieve its objectives. The Board ensures that, collectively, it has the appropriate mix of skills and experience necessary to properly fulfil its responsibilities, including:

- Accounting and finance;
- Business development and risk management;
- Industry and public company experience; and
- Depth of understanding of the role of and legal obligations of a director.

The current Board brings to SAFM a diverse range of skills and experience. The Board comprises of chartered accountants, two mining engineers and a geologist each with considerable experience in the areas of mining, corporate advisory, financial management and accounting. The skills, experience and expertise relevant to the position of each Director who is in office at the date of the annual report and their term of office are detailed in the Directors' report. Members of the Board are encouraged and endeavour to continually improve their skills and industry knowledge.

1.4. Chairman

The role of the Chairman is to ensure that the Board operates in accordance with the Board Charter and ensures that the interests of the shareholders are maintained. The Chairman facilitates communication between the Board and the Chief Executive Officer, represents the Board to shareholders, initiates discussion and debates at Board meetings and plays a lead role in assessing the composition of skills and experience of the Board.

Mr Willsteed was appointed as Chairman to the Board of SAFM on 11 November 2010. Mr Willsteed is an independent Non-executive Director. As Chairman, Mr Willsteed is committed to his role and has made sufficient time and resources available to serve the Company effectively.

Corporate Governance Statement (continued)

1.5. Fiduciary duties

All directors have a fiduciary relationship with the shareholders of the Company. A director occupies a unique position of trust with shareholders, which makes it unlawful for directors to improperly use their position to gain advantage for themselves.

1.6. Duties of directors

Each director must endeavour to ensure that the Company is properly managed so as to protect and enhance the interests of all shareholders. To this end, directors need to devote sufficient time and effort to understand the Company's operations. Directors should ensure that shareholders and the ASX are informed of all material matters which require disclosure and avoid or fully disclose conflicts of interest.

1.7. Conflict of interest

At all times a director must be able to act in the interests of the Company. Where the interests of associates, the personal interest of a director or a director's family may conflict with those of the Company, then the director must immediately disclose such conflict and either:

- Eliminate the conflict; or
- Abstain from participation in any discussion or decision making process in relation to the subject matter of the conflict.

Executive Directors must always be alert to the potential for a conflict of interest between their roles as executive managers and their fiduciary duty as Directors.

1.8. Independence

The names of the current independent Directors of the Company are:

Terence Willsteed
Wayne Kernaghan

The ASX Corporate Governance recommendations are used as a guideline to determine the independent status of a director. An independent director:

- Is not a substantial shareholder of the Company;
- Is not employed or has not been previously employed in an executive capacity by the Company or the Group in the last three years;
- Has not been a principal or key employee or a material professional advisor or consultant to the Company or another group member within the last three years;
- Is not and is not associated with any material customer or supplier or otherwise has a material contractual relationship with the Company or Group.

Mr Turner and Mr Doyle are not considered to be independent Directors as they hold a significant shareholding in SAFM. Mr Fabian is also not considered independent due to his significant shareholding in SAFM and because of his previous executive involvement in the Company.

1.9. Terms of appointment

Each Director on the Board is bound by the terms and conditions of their Director contracts, these contracts clearly define their roles and responsibilities as Directors.

The Directors are required to perform their fiduciary duties with due care and skill and they are required to spend sufficient time in performance of these duties, as outlined in their contracts. The contracts require Directors to disclose any conflicts of interest or any changes in interest that would be perceived to affect their independence.

1.10. Independent advice

The Directors have the right to seek independent professional advice on matters relating to their position as Directors of the Company at the Company expense, subject to the prior approval of the Chairman, which shall not be reasonably withheld.

1.11. Remuneration policy

The Remuneration Policy governs the remuneration practices of the Company. The Remuneration Committee shall review and reassess the policy at least annually and obtain the approval of the Board.

Refer to the Remuneration Report for the details of the remuneration policies.

1.12. Security trading policy

The Company has a Security Trading Policy which regulates dealings by Directors, officers and employees in securities of the Company. The policy restricts Directors and employees from acting on inside information until it has been released to the market and adequate time has been given for this to be reflected in the security's price. All dealings in securities must be disclosed to the Company Secretary.

1.13. Meetings

The Board holds scheduled monthly Board meetings.

Any Director may call a meeting of the Board of Directors by giving reasonable notice to the members of the Board. The meetings held allow the Directors to fulfill their duties as Directors and devote sufficient time and attention to the Company.

During the year ended 30 June 2012, twelve Board meetings were held. Attendance by the Directors at Board and Board Committee meetings is disclosed in the Directors' report. The Chief Financial Officer and senior management personnel are invited to attend the Board meetings to present key operational and financial information.

1.14. Company Secretary

Mr Cohen was appointed as Company Secretary on 11 November 2010. The Company Secretary facilitates the Board in fulfilling its roles by ensuring Board procedures are complied with and advises on corporate governance matters.

1.15. Review, re-election and renewal

In accordance with the constitution of the Company, the Directors (other than the Chief Executive Officer) must offer themselves for re-election by shareholders at least every three years. The Board does not specify the maximum term for which a director can hold office.

2. Board Committees

The Board has established Board Committees to assist it in delegating its authority to effectively carry out its corporate governance objectives.

The Board of SAFM has the following Board Committees:

- Remuneration Committee
- Audit Committee
- Risk Management Committee

The Board has not established a Nomination Committee at this time. Until such time as the Board determines that it is appropriate to establish a Nomination Committee, the function of the Nomination Committee as set out in the Board Charter will be performed by the Board.

2.1 Remuneration Committee

The Remuneration Committee was established to perform the following principle functions:

- To review and recommend to the Board the overall strategies in relation to executive remuneration policies;
- To review and make recommendations to the Board in respect of the compensation arrangements for the executive management and Non-executive Directors;
- To review the effectiveness of performance incentive plans; and
- To review and make recommendations to the Board in respect of all equity based remuneration plans.

In consultation with the Chief Executive Officer, the Committee will formulate policies surrounding the Company's general approach to remuneration and will oversee the implementation of these policies.

The Remuneration Committee comprises the following Non-executive directors:

Stephen Turner (Chairman)
Terence Willsteed
Wayne Kernaghan (appointed 26 June 2012)
Philip Re (resigned 28 May 2012)

Although Mr Turner is not an independent Director, due to his shareholding in the Company, he is considered suitable to chair the Remuneration Committee as he is not involved in the day to day management of the Company.

One Remuneration Committee meeting was held during the year and attended by all members of the Committee at the time of the meeting.

2.2 Audit Committee

The primary function of the Audit Committee is to assist the Board in fulfilling its responsibilities relating to the accounting and reporting practices of the Company.

The Committee will:

- Oversee, co-ordinate and appraise the quality of the audits conducted by the Company's external auditors;
- Determine the independence and effectiveness of the external auditors;
- Maintain open lines of communications among the Board and the external auditors to exchange views and information, as well as confirm their respective authority and responsibilities;
- Serve as an independent and objective party to review the financial information submitted by Management to the Board for issue to shareholders, regulatory authorities and the general public; and
- Review the adequacy of the reporting and accounting controls of the Company.

The Audit Committee comprises the following Non-executive Directors:

Stephen Turner (Chairman)
Terence Willsteed
Wayne Kernaghan (appointed 26 June 2012)
Paul Lloyd (resigned 28 May 2012)

The majority of the Committee members are independent and the Chairman of the audit committee, Mr Turner, is not the Chairman of the Board. Although Mr Turner is not an independent Director, due to his shareholding in the Company, he is considered suitable to chair the Audit Committee as he is not involved in the day to day management of the Company.

Three Audit Committee meetings were held during the year and attended by all members of the Committee at the time of the meeting.

2.3 Risk Management Committee

The Board has nominated a Risk Management Committee. The Risk Management Committee comprises the following Directors:

Stephen Fabian (Chairman)
Stephen Turner
Terence Willsteed

The Risk Management Committee determines the Company's risk profile and is responsible for overseeing and approving the risk management strategy and policies, internal compliance and internal control. The Company's process of risk management, internal compliance and control includes:

- Establishing the Company's goals and objectives, and implementing and monitoring strategies and policies to achieve these goals and objectives;
- Continuously identifying and reacting to risks that might impact upon the achievement of the Company's goals and objectives, and monitoring the environment for emerging factors and trends that affect these risks;
- Formulating risk management strategies to manage identified risks and designing and implementing appropriate risk management policies and internal controls; and
- Monitoring the performance of, and continuously improving the effectiveness of, risk management systems and internal compliance and controls, including an ongoing assessment of the effectiveness of risk management and internal compliance and control.

To mitigate these risks, the Company has developed a range of risk management policies and procedures including monthly board meetings, weekly reports setting out operational and financial updates that are circulated to the Board, periodic audits, and a rigorous appraisal and approval process of projects performed by the Management and the Board.

It is the responsibility of both the Chief Executive Officer and the Chief Financial Officer to provide written assurances to the Board that in all material respects:

- The financial reports submitted to the Board represent a true and fair view of the Company's financial condition and operational results; and
- The Company's risk management and internal compliance and control system is operating efficiently and effectively.

There were three Risk Management Committee meetings held during the year.

3. Code of conduct

The Company has approved a Code of Conduct policy that is part of its Board Charter. The policy aims to encourage the appropriate standards of conduct and behaviour of the directors, officers, employees and contractors (collectively called the employees) of the Company.

The General principles of the Code ensure:

- Employees have a duty to use due care and diligence in fulfilling the functions of their position and exercising the powers attached to their employment;
- Employees must recognise that their primary responsibility is to the Company's shareholders as a whole;
- Employees must not take advantage of their position for personal gain, or the gain of their associates;
- Directors have an obligation to be independent in their judgements;
- Confidential information received by employees in the course of the exercise of their duties remains the property of the Company. Confidential information can only be released or used with specific permission from the Company; and
- Employees have an obligation, to comply with the spirit as well as the letter, of the law and with the principles of the Code of Conduct;

Employees who breach the policies outlined in the Code may be subject to disciplinary action, including, in the case of serious breaches, dismissal.

The Company is committed to conducting all its operations in a manner which:

- Protects the health and safety of all employees, contractors and community members;
- Recognises, values and rewards the individual contribution of each employee;
- Achieves a balance between economic development, maintenance of the environment and social responsibility;
- Maintains good relationships with suppliers and the local community; and
- Is honest, lawful and moral.

All employees (including Directors) are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

This policy is reviewed annually.

4. Market disclosures

The Company recognises the value of providing current and relevant information to its shareholders.

A Continuous Disclosure Policy is in place, which outlines the disclosure obligations of the Company as required under the *Corporations Act 2001* and the ASX listing rules. The policy ensures that procedures are in place so that the stock market in which the Company's securities are listed is properly informed of price sensitive matters.

The Chief Executive Officer and Company Secretary have been appointed as the Company's disclosure officers responsible for implementing and administering the Continuous Disclosure Policy and have the primary responsibility for communication with shareholders.

Information is communicated to shareholders through:

- Continuous disclosure to the relevant Security Exchanges of all material information;
- Periodic disclosure through the annual report, interim financial report and quarterly reporting of exploration, production and corporate activities;
- Notices of meetings and explanatory material;
- Operational updates and progress reports;
- The annual general meeting; and
- The Company's website.

The Company is committed to the promotion of investor confidence by ensuring that trading in the Company's securities takes place in an efficient, competitive and informed market.

Electronic communication

The Company believes that communicating with shareholders by electronic means, particularly through its website, is an efficient way of distributing information in a timely and convenient manner. The website contains the annual, half yearly and quarterly reports, ASX announcements and Company presentations. All website information will be continuously reviewed and updated to ensure that information is current, or appropriately dated and archived.

Corporate Governance Statement (continued)

Written communication and the annual report

Shareholders have been given the opportunity to elect to receive a printed or electronic copy of the annual report from the Company. In addition, the Company publishes its annual report on the Company's website and notifies all shareholders of the web address where they can access the annual report.

Annual general meetings

The Company recognises the rights of shareholders and encourages the effective exercise of those rights through the following means:

- Notices of meetings are distributed to shareholders in accordance with the provisions of the *Corporations Act 2001*;
- Notices of meeting and other meeting material are drafted in concise and clear language;
- Shareholders are encouraged to use their attendance at meetings to ask questions on any relevant matter, with time being specifically set aside for shareholder questions;
- Notices of meetings encourage participation in voting on proposed resolutions by lodgement of proxies, if shareholders are unable to attend the meeting;
- It is general practice for a presentation on the Company's activities to be made to shareholders at each annual general meeting; and
- It is both the Company's policy and the policy of the Company's auditor for the lead engagement partner to be present at the annual general meeting and to answer any questions regarding the conduct of the audit and the preparation and content of the auditors' report.

5. Diversity

The Board of SAFM believe that diversity in the Board and Senior Management is necessary to achieve the Company's objectives. The Board is currently assessing its current practices to account for diversity of key management personnel. In line with the recent ASX corporate governance proposals and depending on the results of the assessment, the Board will amend current policies to formalise diversity considerations into a plan to take into account diversity criteria including race, gender and geographic location.

As at 30 June 2012, 20% of the workforce is female with 1 female at senior management level.

6. Conformance with corporate governance standards

SAFM's compliance with the governance standards imposed by the *Corporations Act 2001* and the ASX Listing Rules and the recommendations provided by the Australian Securities Investments Commission (ASIC) policy and the ASX Corporate Governance Council's Corporate Governance Principles and recommendations are summarised in this Corporate Governance Statement, the remuneration report, the directors report and the financial statements.

The listing Rules of the ASX require Australian listed Companies to report on the extent to which they meet the Corporate Governance principles and recommendations published by the ASX Corporate Governance Council and explain the reasons for non-compliance. The Board is required to consider the application of the relevant corporate governance principles, while recognising the departures from those principles, where appropriate in some circumstances. Compliance and any deviations from the Corporate Governance Standards and Recommendations have been disclosed in this Corporate Governance Statement, the remuneration report, the directors' report and the financial statements.

Further information relating to the Company's corporate governance practices and policies have been made publicly available on the Company's website at http://www.safml.com/corporate-governance.php.

Directors' Report

The Directors present their report on the results of the Consolidated Entity, SAFM, for the year ended 30 June 2012.

Directors

The names of the Company's Directors of the Group in office during the financial year and up until the date of this report are:

Name	Current Position	Date of appointment to Board	Date of resignation
Terence Willsteed	Chairman	11 November 2010	–
Phillip Hopkins	Chief Executive Officer	16 November 2011	–
Stephen Fabian	Non-executive Director	11 November 2010	–
Stephen Turner	Non-executive Director	11 November 2010	–
Philip Re	Non-executive Director	6 December 2007	28 May 2012
Paul Lloyd	Non-executive Director	19 June 2008	28 May 2012
Alan Doyle	Non-executive Director	1 June 2011	–
Wayne Kernaghan	Non-executive Director	26 June 2012	–

Principal activities

The Company owns 100% of the Ponto Verde iron ore mine, located in the heart of the Iron Ore Quadrilateral, 55 kilometres from Belo Horizonte in the Brazilian State of Minas Gerais. The Iron Ore Quadrilateral is a prolific iron ore mining area that produces almost two thirds of Brazil's iron ore. Ponto Verde is located close to established mining operations, pig iron and steel plants and transport infrastructure.

SAFM currently produces three iron products from Ponto Verde: Lump, Sinter and Concentrate. These are sold to local steel producers in Brazil, with opportunities to export the product being evaluated.

SAFM has a JORC Resource at Ponto Verde of 230.6 million tonnes at 44.52% Fe (which includes an Indicated Resource of 60.6Mt at 41.61% Fe, and an Inferred Resource of 170Mt at 45.55% Fe). The Ponto Verde mine has a potential exploration target of between 300 million and 350 million tonnes at a grade of between 40% and 44% Fe in situ that is upgradeable to +60% Fe content[1].

Directors' Report (continued)

Review and results of operations

Set out below is a review of significant activities within SAFM for the year ended 30 June 2012:

Group structure and capital raising

The legal parent Company changed its name from Riviera Resources Limited ("RVE") to South American Ferro Metals Limited ("SAFM Limited") on 13 September 2010. On 22 September 2010, SAFM consolidated its issued share capital on a one for two basis and on 11 November 2010 acquired all the shares in a company incorporated in the British Virgin Islands by the same name – South American Ferro Metals Limited ("SAFM BVI"), which owned 100% of SAFM Mineração Limitada ("SAFM Brazil") (referred to as the "SAFM BVI acquisition"). The acquisition price of US$65,609,000 was settled via the issue of shares as follows:

Class of share	Performance share milestone	Date of Performance milestone achieved	Number (Post-consolidated)
Ordinary shares	n/a	n/a	83,977,967
Class A Performance Shares	The production run rate over a continuous three month period is equal to or greater than 800,000 tonnes per annum.	28 February 2011	83,977,967
Class B Performance Shares	A certified JORC compliant resource of iron ore of at least 50,000,000 tonnes	23 December 2011	83,977,967
Class C Performance Shares	The earlier of: – Identifying a JORC compliant resource of Iron ore of at least 140,000,000 tonnes; or; – The production run rate over a continuous twelve month period is equal to or greater than 800,000 tonnes per annum.	27 October 2011	83,977,967

As per the above table, all three classes of performance shares have been converted upon their individual Performance Share Milestones being achieved.

Environmental licensing process

The State Environment Policy in Brazil is governed by the State Council of the Environment ("CONAMA"). CONAMA prescribes the conditions and limitations over the control and use of natural resources in Brazil, and is responsible for the issuing of Operating Licenses required to commence mining operations ("LO").

The regulation and monitoring of compliance to the policy is handled by the local municipality of Itabrito. CONAMA and the local municipality are also responsible for issuing Preliminary Licenses ("LP") required to perform environmental studies and impact assessments as well as Installation Licences ("LI") permitting plant and infrastructure to be established on site.

SAFM Brazil received its LP and LI on 30 August 2010 and its LO on 26 October 2010.

Maiden JORC Resource

On 23 December 2011, the Company announced its maiden JORC Resource estimate of 230.6Mt at 44.52% Fe (including Indicated Resource of 60.6Mt at 41.61% Fe and an Inferred Resource of 170Mt at 45.55% Fe).

Installation of Cone Crusher

On 1 May 2012, SAFM successfully installed a Cone Crusher in the secondary crushing circuit of the processing plant. The change of secondary crushing from a Jaw Crusher to a Cone Crusher resulted in the achievement of record daily production of 5,720 tonnes on 17 May 2012 and also record weekly production during the same seven-day period.

Introduction of additional mining shift

During the month of May 2012, SAFM increased the number of mining crews from 3 to 4, allowing the business to operate on Sundays. This resulted in a record ROM production during that month.

Definite Feasibility Study and exploration activities

On 29 February 2012, SAFM announced that it has approved the commencement of a Definitive Feasibility Study ("DFS") to expand its Ponto Verde iron ore mine to a capacity of 8 Mtpa ROM throughput, from the current 1.5 Mtpa licenced capacity. The DFS will also evaluate the required footprint and preliminary work required for a second 8 Mtpa expansion of Ponto Verde (Phase II), which will bring the mine to a total capacity of 16Mtpa.

To support this expansion, the Board has also approved the commencement of the Resource Definition Programme Phase II. This programme aims to increase the size of the deposit at Ponto Verde to an exploration target of between 300 and 350Mt at 40% to 44%[1], from the current JORC compliant resource of 230.6Mt at 44.52%[2] (includes Indicated Resource of 60.6Mt at 41.61% Fe, and Inferred Resource of 170Mt at 45.55% Fe). As part of this Programme, an access agreement was entered into between SAFM and Vale in order to effectively perform the required drilling.

Commissioning of the first stage concentrator

On 28 May 2012, SAFM commissioned its Concentrator plant at the Ponto Verde mine. The Concentrate production is targeted at between 20,000 and 24,000 tonnes per month at a grade of approximately 65% Fe.

It is anticipated that the proceeds from the sale of Concentrate will have a material positive impact on SAFM's monthly cash flow. Additional benefits include a reduction in the project's environmental footprint (due to the reduction in the land area required for tailings storage) and lower annual waste management costs. The Concentrator also eliminates the need for the current settling pond arrangement required for full water management and ore recovery.

Financial review

Summary of income statement	30 June 2012	30 June 2011
Beneficiated production (tonnes)	**506,632**	49,104
Sales volumes (tonnes)*	**523,378**	25,918
	$'000	$'000
Sales revenue	**17,693**	3,544
Cost of goods sold	**(9,329)**	(637)
Gross profit	**8,364**	2,907
Other (expenses)/income	**(4,574)**	(11,015)
Net finance costs	**(2)**	(389)
Profit/(loss) before tax	**3,788**	(8,497)
Income tax (expense)/credit	**(1,479)**	762
Net profit/(loss) after tax	**2,309**	(7,735)
Net operating cash flow	**4,009**	(3,828)
EPS ($ cents per share)	**0.68**	(4.52)

1 *The Exploration Target is based on the geological model associated with the defined JORC Resource as stated, and has been determined by a JORC Competent Person Mr Philip Hopkins. It is uncertain if further exploration of the Exploration Target will result in the determination of Mineral Resources.*

2. *Coffey Mining, December 2011 – see ASX announcement dated 23 December 2011.*

* *Sales volumes represent sales of beneficiated product and do not include the sale of 279,861 tonnes of Concentrator Fines, Waste and Run of Mine (2011: 679,058 tonnes).*

Directors' Report (continued)

Significant changes in the state of affairs

Other than the SAFM BVI acquisition described under Group Structure in the Directors' report above, there were no other significant changes in the state of affairs of the Group for the year ended 30 June 2012.

Dividends

No dividends were paid during the financial year and no recommendation is made as to payment of dividends.

After reporting date events

On 8 August 2012, SAFM announced the approval of the Stage II Concentrator project. The Concentrator is estimated to cost $3.64 million and is expected to produce 378,000 tpa, thereby lifting total site mass recovery to an estimated 79% of 1.5Mtpa ROM feed.

The design of the plant will be modelled on a similar Wet High Intensity Magnetic Separation (WHIMS) plant constructed in Minas Gerais, therefore reducing any technology and project risk. Full commissioning of the plant is expected by the end of June 2013.

Future developments, prospects and business strategies

Save for the above mentioned projects, the Group continues to focus on areas of production system improvements at the Ponto Verde mine, as well as expanding its customer base whilst maintaining strict management of its costs.

The Company has and continues to assess various acquisition opportunities and carefully evaluates these against its ability to add value to the potential asset, its cost of capital, as well as the strategic vision.

Environmental issues

SAFM is committed to the responsible management of the environment in and around Ponto Verde and sustainable iron ore production. This includes compliance with the government ministerial agreement governing the site, and site-based operational activities. SAFM has employed a full-time public environmental officer at Ponto Verde who oversees and monitors compliance with the ministerial agreement. As part of that agreement SAFM has commenced construction of a park fence next to the Ponto Verde site. The Company is also monitoring closely the progress of government talks on the rehabilitation work of caves and ruins in the Aredes´ Park. Also in line with our government compliance commitment, on-ground rehabilitation work has commenced and will be completed in FY2013.

Recent site-based environmental work has been focused on: plant discharge management and control; dust suppression on the road during the dry season; working conditions (noise, dust and vibration); management of erosion associated with through-property traffic; flora and fauna management; and joint governmental studies. Material progress has been made in each of these areas with formal planning and procedures being developed in a number of specific areas in order to ensure long-term sustainability.

Directors' qualifications and experience

The Directors' qualifications and experience are set out below. The details of their specific responsibilities in the Company are outlined in the Corporate Governance Statement.

Non-executive Directors

Terence Willsteed

Non-executive Chairman

Mr Willsteed holds a Bachelor of Engineering (Mining) with Honours and a Bachelor of Arts. He is a Fellow of the Australasian Institute of Mining and Metallurgy, a Registered Member of the Society of Mining Engineers and a Member of the Australian Institute of Company Directors. Since 1973 he has been the principal of consulting mining engineers, Terence Willsteed & Associates.

Mr Willsteed's 50 year career in the mining industry has included senior operational and engineering management positions with Zinc Corporation, Mt Isa Mines Limited and Consolidated Goldfields Australia Limited. His recent public directorships include European Gas Limited, Niuminco Group Limited, International Ferro Metals Limited, Citigold Corporation Limited, Vantage Goldfields Limited, Timpetra Resources Limited and Goldsearch Limited. In his consulting experience, Mr Willsteed has been involved in the assessment and development of a wide range of mineral, coal and oil shale projects, and has participated in the management of developing and operating mineral projects both in Australia and internationally.

Stephen Turner

Non-executive Director

Mr Turner is a Chartered Accountant. He was the Chief Executive Officer of International Ferro Metals Limited for seven years. International Ferro Metals Limited is a South African based integrated mining and smelting company which produces over 3% of global ferrochrome supply and is listed on the London Stock Exchange. Mr Turner is now its Non-executive Deputy Chairman.

Mr Turner is the Non-executive Chairman of Vantage Goldfields Limited, an Australian gold company operating in South Africa, a Non-executive Director of Iluka Resources Limited, the world's largest producer of zircon and a Non-executive director of Timpetra Resources Limited, a junior gold exploration company. Mr Turner has delivered resource projects in Australia, Southern Africa, Fiji, New Caledonia and the Solomon Islands. He was a founding director of the Australian subsidiary of PSG Investment Bank, then South Africa's fifth largest investment bank.

Stephen Fabian

Non-executive Director

Mr Fabian is the founder of SAFM Brazil, and is a qualified mining engineer with over 25 years of experience in the mining finance sector. His career spans across the mining and finance industries and includes past positions with County NatWest in Australia and London and Rock Capital Partners in the United Kingdom.

Mr Fabian was instrumental in the founding of Ferrous Resources Limited, a company developing iron ore properties in Brazil. He is an advisor to the Baker Steel Resource Trust ("BSRT"), which is listed on the London Stock Exchange. BSRT presently holds an investment in SAFM. He is also Chairman of Kincora Copper Limited and a non-executive director of REB Gold and Ironstone Resources.

Philip Re

Non-executive Director (resigned 28 May 2012)

Mr Re is a Director of Regency Corporate Pty Ltd where he provides corporate advisory services. Mr Re is a Chartered Accountant and a Chartered Secretary. He is a member of the Institute of Company Directors.

In recent years Mr Re has been involved as a director and company secretary for a number of public companies involving transactions in the mining exploration industry. Currently Mr Re is the company secretary of Promesa Limited and Firestrike Resources Limited.

Mr Re previously held roles as a director of Meridian Minerals Limited and acted as company secretary for Transit Holdings Limited. Mr Re is Chairman of the charity organisation "The Better Life Foundation WA".

Paul Lloyd

Non-executive Director (resigned 28 May 2012)

Mr Lloyd is a Chartered Accountant with over 25 years' commercial experience. Mr Lloyd operates his own corporate consulting business, specialising in the area of corporate, financial and management advisory services. After commencing his career with an international accounting firm, he was employed for approximately ten years as the General Manager of Finance for a Western Australian based international drilling contractor working extensively in Asia and Africa.

In 2006, Mr. Lloyd was involved in the listing of Beacon Minerals Limited and Target Energy Limited on the ASX. Mr Lloyd is currently a director of Firestrike Resources Limited.

Alan Doyle

Non-executive Director

Mr Doyle graduated as a geologist in 1979 and worked as a field geologist before entering the financial services industry in 1984. In the early 1990's, Mr Doyle founded Turnbull Doyle Resources, a private equity and investment banking company that took positions in emerging resource companies. During his time at Turnbull Doyle Resources, Mr Doyle identified and managed these assets prior to either a trade sale or float on international stock exchanges. Several of these early assets in West Africa, Australia and Russia have become significant mines and projects. More recently, Mr Doyle's company, Africa Pacific Capital, has founded and funded a number of early stage mining ventures principally in South Africa and South America which have also grown into significant mining companies.

Wayne Kernaghan

Non-executive Director (appointed 26 June 2012)

Mr Kernaghan is a member of the Institute of Chartered Accountants in Australia, a Fellow of the Australian Institute of Company Directors, and member of the Institute of Chartered Secretaries and Administrators.

Mr Kernaghan brings to SAFM more than 25 years' experience in the mining industry as a Director and Company Secretary with a number of resources companies listed on the Australian Securities Exchange and London Stock Exchange. Companies that Mr Kernaghan has worked with include International Ferro Metals Limited, Cullen Resources Limited, Gulf Industrials Limited and Vantage Goldfields Limited.

Executive Director

Phillip Hopkins

Chief Executive Officer (appointed on 9 May 2011) and Executive Director (appointed on 16 November 2011)

Mr Hopkins holds a Bachelor of Engineering (Mining) and is a graduate of the Banff School of Advance Management. Mr Hopkins is a registered professional engineer. Mr Hopkins' 30 years in the mining industry has included experience in technical, projects, operations and corporate arenas. His career has included work with Cominco Limited, Falconbridge Limited, Placer Dome Limited, BHP Billiton Limited and St Barbara Limited and has included international postings in Canada, Papua New Guinea, South Africa and Australia. Mr Hopkins' experience includes both underground and open pit mining and covers the commodities of Copper, Nickel, Gold and Iron Ore.

Senior Management

Dion Cohen

Chief Financial Officer and Company Secretary

After qualifying as a Chartered Accountant at Ernst & Young in 1995, Mr Cohen was involved in corporate finance and private equity. His experience ranges from mergers and acquisition structuring, to capital raisings and management of mining companies in private equity ownership. Mr Cohen held the position of Chief Financial Officer of International Ferro Metals Limited; a company listed on the Main Board of the London Stock Exchange and has held board positions in both listed and unlisted companies. Mr Cohen is a Director of Formulate Financial Services Pty Ltd, a company that provides corporate finance services to junior mining companies.

Helvécio José Veloso Pires

Chief Operating Officer (resigned on 7 September 2012)

Mr Pires holds a degree in mining engineering and a postgraduate degree in environmental engineering from the University of Minas Gerais. He has also completed an MBA in Business Management from the Dom Cabraol Foundation. Mr Pires has more than 23 years' experience in mine planning, operations and environmental management, working most recently in resources and reserves certification at Runge/Pincock, an Australian based mining consulting company. Over his career, Mr Pires has worked with some of the largest iron ore producers in Brazil, including Vale, MMX, Caemi and MBR.

José Márcio Paixao

Chief Development Officer (appointed 17 August 2011)

Mr Paixao holds a degree in Mining engineering from the University of Minas Gerais. He has an MSC in chemical engineering and a PhD in Metallurgy/Electrochemistry from Paris VI University in France. He has worked in mining and metallurgy for more than 26 years, including spending more than a decade with Vale, the world's biggest iron ore producer. Most recently, he worked as Chief Operating Officer for Vancouver-based Earth XM Mining Corp.

Eduardo Freitas

Chief Commercial Officer

Mr Freitas holds a Bachelor of Economics degree from the University of Sao Joao del Rei. He worked at Companhia Siderugica Nacional ("CSN"), a major steel-maker in Brazil for over 8 years in the area of iron ore exportation. In 2009 he took on a role as economic specialist for NAMISA, a jointly controlled company of CSN.

Meetings of Directors

The number of meetings held during the year and the number of meetings attended by each director was as follows:

	Board Meetings		Audit Committee		Risk Management Committee		Remuneration Committee	
Directors	A	B	A	B	A	B	A	B
Terence Willsteed	12	12	3	3	3	3	1	1
Philip Hopkins	7	7	–	–	–	–	–	–
Stephen Turner	12	12	3	3	3	3	1	1
Stephen Fabian	12	11	–	–	3	3	–	–
Philip Re	11	9	–	–	–	–	1	1
Paul Lloyd	11	10	3	3	–	–	–	–
Alan Doyle	12	12	–	–	–	–	–	–
Wayne Kernaghan	–	–	–	–	–	–	–	–

A – Meetings held whilst a director

B – Meetings attended whilst a director

The Group does not have a Nomination Committee with the full Board carrying out the functions that would otherwise be dealt with by such a Committee.

Share options

As at the date of this report, there were 31,630,000 unlisted options and 22,430,875 listed options over ordinary shares on issue that have been issued. Refer to the remuneration report and note 23 for further details of the options outstanding.

Shares issued as a result of the exercise of options

No shares as a result of the exercise of the options were issued as at the date of this report.

Directors' interests and benefits

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

	Number of Ordinary Shares		Number of Options			
			Listed		Unlisted	
	Directly	Indirectly	Directly	Indirectly	Directly	Indirectly
Terence Willsteed	–	2,735,745	–	–	–	5,000,000
Philip Hopkins	–	–	–	–	10,000,000	–
Stephen Fabian	–	44,598,809	–	–	2,500,000	–
Stephen Turner[1]	–	61,689,809	–	–	2,500,000	–
Alan Doyle[2]	–	64,914,419	–	–	–	–
Wayne Kernaghan	–	902,796	–	–	–	–
Philip Re	–	1,705,000	–	852,500	–	625,000
Paul Lloyd	–	950,000	–	475,000	–	3,500,000

1. *Mr Turner's shareholding (both listed and unlisted) is held indirectly as follows:*
   - *40,612,137 shares held by Tin Zone Holdings Limited in trust for Independent Nominees Corporation Pty Limited (as trustee for the Simone Family Trust);*
   - *11,729,992 shares held by Afro Pacific Capital Pty Ltd, a company of which he is a shareholder and director. Mr Turner only has a part interest in these shares; and*
   - *9,347,680 shares held by Africa Pacific Capital (HK) Limited, a company of which he is a shareholder and director. Mr Turner only has a part interest in these shares.*
2. *Mr Doyle's shareholding is held indirectly as follows:*
   - *43,836,747 shares held by Topix Management Limited;*
   - *11,729,992 shares held by Afro Pacific Capital Pty Limited, a company of which he is a shareholder and director; Mr Doyle only has a part interest in these shares; and*
   - *9,347,680 shares held by Africa Pacific Capital (HK) Limited, a company of which he is a shareholder and director. Mr Doyle only has a part interest in these shares.*

Remuneration Report (Audited)

Introduction

The Directors of SAFM present the Remuneration Report for the Group for the year ended 30 June 2012. This Remuneration Report forms part of the Directors' Report in accordance with the requirements of the *Corporation Act 2001* and its regulations.

For the purposes of this report Key Management Personnel ("KMP") of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company. Recent amendments to the Australian Corporation Act 2001 remove the requirement to disclose remuneration for the five highest paid executives and limits disclosure only to KMPs as defined in AASB 124 *Related Parties*. Further, remuneration disclosures are only required for the KMP of the consolidated entity rather than currently for the KMPs of the parent company and consolidated entity, if different. This requirement applies to Remuneration Reports for financial years commencing on or after 1 July 2011.

Table 1: The details of the KMP are:

Name	Position
Terence Willsteed	Non-Executive Chairman
Philip Hopkins	Chief Executive Officer
Stephen Fabian	Non-Executive Director
Stephen Turner	Non-Executive Director
Alan Doyle	Non-Executive Director
Wayne Kernaghan	Non-Executive Director (appointed 26 June 2012)
Philip Re	Non-Executive Director (resigned 28 May 2012)
Paul Lloyd	Non-Executive Director (resigned 28 May 2012)
Dion Cohen	Chief Financial Officer and Company Secretary
Helvécio José Veloso Pires	Chief Operating Officer (appointed 17 August 2011, resigned 7 September 2012)
José Márcio Paixao	Chief Development Officer (appointed 17 August 2011)
Eduardo Freitas	Chief Commercial Officer

Remuneration Policy

The remuneration policy of SAFM has been designed to align KMP objectives with Shareholder interests and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The SAFM Board believes that the remuneration policy is appropriate and effective in its ability to attract and retain the best KMP to run and manage the consolidated Group, as well as create goal congruence between Directors, Executives and Shareholders.

Executive Directors and Senior Management

The Board's policy for determining the nature and amount of remuneration for Executive Directors and Senior Management of the consolidated Group is as follows:

- The remuneration policy is to be developed by the Remuneration Committee and approved by the Board. If appropriate, professional advice maybe sought from independent external consultants.
- The appointment of any independent external consultants will be made by the Remuneration Committee.
- All KMP receive a base salary (which is based on factors such as length of service and experience) and performance incentives.
- Performance incentives are generally only paid once predetermined key performance indicators have been reached.
- The Remuneration Committee reviews KMP packages annually based on key performance indicators and relative market factors.

KMP in Australia receive a superannuation guarantee contribution required by the government, which is currently 9%. Some employees, however, have chosen to sacrifice part of their salary to increase payments towards superannuation. KMP in Australia do not receive any other retirement benefits.

SAFM Brazil is required to make a contribution of 8% of the base salary to an Unemployment Compensation Fund ("FGTS") for each employee. Employers must also contribute up to 20% of an employee's salary to the National Institute for Social Security ("INSS"), the country's public pension system, and a maximum of 8.8% on other social security taxes. The amount of these employee contributions are dependent on the individual employee's salary level.

In addition, the following legislative benefits form part of all Brazilian based employee salaries:

- Thirteenth salary cheque which is equal to the salary paid in December of the current year, and
- A vacation payment that is equal to thirty days paid vacation plus 1/3 of the current month salary payable when the employee takes their statutory thirty day's leave. This leave must be taken during the year and cannot be accrued.

Non-Executive Directors

The Board's policy is to remunerate Non-Executive Directors based on market practices, duties and accountability. Independent external advice is sought when required. The fees paid to Non-Executive Directors are reviewed annually. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by Shareholders at the Annual General Meeting ("AGM"). The current maximum aggregate amount of fees payable is currently at $500,000 per annum.

Long term incentives ("LTI")

In June 2008, the Board of Directors introduced an Incentive Option Scheme ("Scheme") as a long-term incentive scheme to attract, retain and motivate eligible employees by offering eligible participants the opportunity to Share in the Company's future performance through awards to acquire ordinary shares in the Company.

Incentives offered in the form of options or rights are intended to align the interests of the KMP and the Company with those of the Shareholders. In this regard, KMP are prohibited from limiting risk attached to those instruments by use of derivatives or other means.

On 18 February 2011, at an extraordinary General Shareholders Meeting, Shareholders approved the Company's amendment of the Scheme to allow for the imposition of vesting and exercise conditions which apply before the options will vest and can be exercised to better align the Scheme to changes to the regime for taxation of shares and rights under employee shares.

Under the Scheme, the Board may offer options to full or part-time employees, Directors and consultants of the Company or an associate body corporate of the Company, which the Board determines, should be entitled to participate in the Scheme.

Each option exercised entitles the holder to subscribe for one Share. The shares issued upon exercise of the options will rank parri passu and carry the same rights and entitlements as the ordinary shares on issue.

On 18 February 2011, Shareholders approved the grant of 17 million options to the Directors of the Company to subscribe for up to a total of 17 million ordinary shares in the Company, in accordance with the Scheme rules. In addition, Share options to subscribe for 2.5 million ordinary shares were granted to Mr Cohen on 18 February 2011, as well as options to subscribe for 10 million ordinary shares were granted to Mr Hopkins on 9 May 2011.

Section C sets out the vesting terms and exercise conditions of these unlisted options.

Short Term Incentives ("STI") and Benefits

The Board is responsible for assessing short term incentives for KMP. Service agreements may establish short-term incentives against key performance indicators which are assessed by the Board.

On 16 August 2011, an incentive scheme was approved for the executive management team to receive incentive payments of up to 50% of annual base salary to be paid on completion of FY2012. The incentive payment is discretionary, subject to individual performance targets being reached.

A total of $125,898 was awarded as short term incentives in the year ended 30 June 2012. (2011: Nil)

Use of Remuneration Consultants

To ensure the Remuneration Committee is fully informed when making remuneration decisions, it may seek external remuneration advice. The Board did not require external remuneration advice during the year ended 30 June 2012.

Remuneration report approval at FY2011 AGM

The remuneration report for the year ended 30 June 2011 received favourable Shareholder support with a 10 to 1 favourable vote.

Share Trading and Margin Loans by Directors and Executives

Directors, executives and employees are prohibited from:

a) Short term trading: trading in securities (or an interest in securities) on a short-term trading basis other than when a director, employee or executive exercises employee options or performance rights to acquire shares at the specified exercise price. Short-term trading includes buying and selling securities within a 3 month period, and entering into other short-term dealings (e.g. forward contracts),

b) Hedging unvested awards: trading in securities which operate to limit the economic risk of an employee's holdings of unvested securities granted under an employee incentive plan; or

c) Short positions: trading in securities which enables an employee to profit from or limit the economic risk of a decrease in the market price of shares.

KMP may not include their securities in a margin loan portfolio or otherwise trade in securities pursuant to a margin lending arrangement without first obtaining the consent of the Chairman. Such dealing would include:

a) Entering into a margin lending arrangement in respect of securities;

b) Transferring securities into an existing margin loan account; and

c) Selling securities to satisfy a call pursuant to a margin loan except where they have no control over such sale.

The Company may, at its discretion, make any consent granted in accordance with the above paragraph conditional upon such terms and conditions as the Company sees fit (for example, in regards to the circumstances in which the securities may be sold to satisfy a margin call).

A. Details Of Remuneration

Table 2: Details of remuneration of the Directors and KMP of the Group (as defined by AASB 124 Related Party Disclosures) and specified executives are set out below:

		Fixed			STI	LTI	Total	Proportion of Remuneration		
	Year	Salary, fees and leave $	Other Fees[1] $	Super-annu-ation[2] $	Incentive payments $	Fair value of Option Rights (equity settled)[3] $	$	Fixed %	STI %	LTI %
Non-Executive Directors										
Terence Willsteed	**2012**	**130,000**	**–**	**–**	**–**	**70,628**	**200,628**	**65**	**–**	**35**
	2011	218,490	–	–	–	96,174	314,664	69	–	36
Stephen Fabian	**2012**	**65,000**	**–**	**–**	**–**	**35,314**	**100,314**	**65**	**–**	**35**
	2011	–	–	–	–	–	–	–	–	–
Stephen Turner	**2012**	**59,635**	**–**	**5,365**	**–**	**35,314**	**100,314**	**65**	**–**	**35**
	2011	39,757	–	3,578	–	48,087	91,422	47	–	53
Alan Doyle	**2012**	**65,000**	**49,500**	**–**	**–**	**–**	**114,500**	**100**	**–**	**–**
	2011	5,417	18,000	–	–	–	23,417	100	–	–
Wayne Kernaghan	**2012**	**623**	**–**	**56**	**–**	**–**	**679**	**100**	**–**	**–**
	2011	–	–	–	–	–	–	–	–	–
Philip Re	**2012**	**59,583**	**–**	**–**	**–**	**49,440**	**109,023**	**55**	**–**	**45**
	2011	37,919	–	–	–	67,322	105,241	36	–	64
Paul Lloyd	**2012**	**59,583**	**–**	**–**	**–**	**49,440**	**109,023**	**55**	**–**	**45**
	2011	43,336	–	–	–	67,322	110,658	39	–	61
Total Non-Executive Directors	**2012**	**439,424**	**49,500**	**5,421**	**–**	**240,136**	**734,481**			
	2011	344,919	18,000	3,578	–	278,905	645,402			
Executive Directors										
Terence Willsteed	**2012**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2011	–	–	–	–	–	–	–	–	–
Phillip Hopkins	**2012**	**431,856**	**–**	**50,000**	**56,250**	**105,546**	**643,652**	**75**	**9**	**16**
	2011	66,678	–	7,665	–	11,080	85,423	87	–	13
Stephen Fabian	**2012**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2011	250,306	–	–	–	48,087	298,393	84	–	16
Philip Re	**2012**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2011	15,417	107,500	900	–	–	123,817	100	–	–
Paul Lloyd	**2012**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2011	10,000	65,270	900	–	–	76,170	100	–	–
Mark Foster	**2012**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2011	15,000	100,872	900	–	–	116,772	100	–	–
Nick Revell	**2012**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2011	10,000	–	900	–	–	10,900	100	–	–
Total Executive Directors	**2012**	**431,856**	**–**	**50,000**	**56,250**	**105,546**	**643,652**			
	2011	367,401	273,642	11,265	–	59,167	711,475			

Table 2: Details of remuneration of the Directors and KMP of the Group (as defined by AASB 124 Related Party Disclosures) and specified executives are set out below (continued):

		Fixed			STI	LTI	Total	Proportion of Remuneration		
	Year	Salary, fees and leave $	Other Fees[1] $	Super-annu-ation[2] $	Incentive payments $	Fair value of Option Rights (equity settled)[3] $	$	Fixed %	STI %	LTI %
Senior Management										
Dion Cohen	**2012**	**175,000**	**–**	**–**	**10,938**	**35,314**	**221,252**	**79**	**5**	**16**
	2011	145,835	–	–	–	48,087	193,922	75	0	25
Helvécio Pires[4]	**2012**	**153,033**	**–**	**–**	**12,945**	**–**	**165,978**	**92**	**8**	**–**
	2011	–	–	–	–	–	–	–	–	–
José Paixao[4]	**2012**	**155,211**	**–**	**–**	**25,597**	**–**	**180,808**	**86**	**14**	**–**
	2011	–	–	–	–	–	–	–	–	–
Eduardo Freitas[4]	**2012**	**142,846**	**–**	**–**	**20,168**	**–**	**163,014**	**88**	**12**	**–**
	2011	–	–	–	–	–	–	–	–	–
Rodrigo Branco[4]	**2012**	**37,033**	**–**	**–**	**–**	**–**	**37,033**	**100**	**–**	**–**
	2011	247,484	–	–	–	–	247,484	100	–	–
Glauco Mol[4]	**2012**	**77,006**	**–**	**–**	**–**	**–**	**77,006**	**100**	**–**	**–**
	2011	149,395	–	–	–	–	149,395	100	–	–
Total Senior Management	**2012**	**740,129**	**–**	**–**	**69,648**	**35,314**	**838,091**			
	2011	542,714	–	–	–	48,087	590,801			
Total Remuneration	**2012**	**1,611,409**	**49,500**	**55,421**	**125,898**	**380,996**	**2,223,224**			
	2011	1,255,034	291,642	14,843	–	386,159	1,947,678			

Mr Freitas did not meet the definition of a KMP for the 2012 financial year.

Mr Foster and Mr Revell resigned on 12 November 2010.

Mr Branco resigned on 31 July 2011, but continued to offer consulting services to the Company to 30 September 2011.

Mr Mol's contract was terminated on 30 September 2011.

Mr Hopkins was appointed Director of the Company on 16 November 2011.

1. *These amounts represent additional work undertaken for the Company, including accounting, administration and management services charged.*
2. *Includes superannuation payment in Australia and any voluntary fee sacrifice to superannuation.*
3. *The Share-Based Payments comprise of options over ordinary shares in the Company and have been valued based on the Binomial options pricing model using a Monte Carlo simulation analysis.*
4. *The remuneration in Brazil has been converted at an exchange rate of R$/$: 0.5446, being R$:1,145,500 ($623,839).*

B. Service Agreements

The following should be read with reference to the STI, LTI structure and Table 2 above.

Mr Terence Willsteed

Non-Executive Chairman (appointed 11 November 2010)

The Company entered into a service agreement on 11 November 2010 with Patermat Pty Limited, a company of which Mr Willsteed is a director and Shareholder. Under the terms of the present contract:

- Mr Willsteed is paid a service fee, in his current role as Chairman, of $130,000 per annum. Additional consulting work for the Company undertaken by Mr Willsteed for more than four days in any month is paid at the rate of $450 per hour.
- Patermat Pty Limited was granted 5,000,000 unlisted equity settled Share options through the Company's Incentive Option Scheme during the year ended 30 June 2011. The terms of the options are set out in section C of this remuneration report.
- The service agreement may be terminated at any time by Mr Willsteed giving the Company not less than three month's written notice. The Company may terminate the agreement without cause by providing not less than three months written notice or by making a lump sum payment in lieu of any such period of notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Willsteed's employment at any time without any compensation payable.

Mr Philip Hopkins

Chief Executive Officer (appointed 9 May 2011) and Executive Director (appointed on 16 November 2011)

The Company entered into a service agreement with Mr Hopkins on 9 May 2011. Mr Hopkins is employed under a rolling contract. Under the terms of the present contract:

- Mr Hopkins is paid a salary of $450,000 (incl superannuation) per annum.
- Mr Hopkins was granted 10,000,000 unlisted equity settled Share options through the Company's Incentive Option Scheme during the year ended 30 June 2011. The terms of the options are set out in section C of this remuneration report.
- In respect of Mr Hopkins' service, an incentive payment of $56,250 was accrued at 30 June 2012. The incentive payment was based on certain performance targets being met.
- The service agreement may be terminated at any time by Mr Hopkins giving the Company not less than six month's written notice. The Company may terminate the agreement without cause by providing not less than six months written notice or by making a lump sum payment in lieu of any such period of notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Hopkins' employment at any time without any compensation payable.

Mr Stephen Fabian

Managing Director (resigned 30 June 2011) and Non-Executive Director (appointed 1 July 2011)

Mr Fabian led SAFM through its listing on the ASX in November 2010 and was succeeded by Mr Hopkins as CEO. Mr Fabian continues to serve as a Non-Executive Director with effect from 1 July 2011. Under the terms of the present contract as Non-Executive Director:

- Mr Fabian is paid a service fee of $65,000 per annum.
- Mr Fabian will provide his services as director for two days per month.
- Mr Fabian was granted 2,500,000 unlisted equity settled Share options through the Company's Incentive Option Scheme during the year ended 30 June 2011. The terms of the options are set out in section C of this remuneration report.
- The service agreement may be terminated at any time by Mr Fabian giving the Company not less than three month's written notice. The Company may terminate the agreement without cause by providing not less than three months written notice or by making a lump sum payment in lieu of any such period of notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Fabian's employment at any time without any compensation payable.

Mr Stephen Turner

Non-Executive Director (appointed 11 November 2010)

The Company entered into a service agreement with Mr Turner on 11 November 2010. Under the terms of the present contract:

- Mr Turner is paid a service fee of $65,000 per annum.
- Mr Turner will provide his services as director for two days per month.
- Mr Turner was granted 2,500,000 unlisted equity settled Share options through the Company's Incentive Option Scheme during the year ended 30 June 2011. The terms of the options are set out in section C of this remuneration report.
- The service agreement may be terminated at any time by Mr Turner giving the Company not less than three month's written notice. The Company may terminate the agreement without cause by providing not less than three months written notice or by making a lump sum payment in lieu of any such period of notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Turner's employment at any time without any compensation payable.

Mr Alan Doyle

Non-Executive Director (appointed 1 June 2011)

The Company entered into a service agreement with Mr Doyle on 1 June 2011. Under the terms of the present contract:

- Mr Doyle is paid a service fee of $65,000 per annum. Additional consulting work for the Company undertaken by Mr Doyle for more than four days in any month is paid at the rate of $1,000 per day.
- Mr Doyle will provide his services as director for two days per month.
- The service agreement may be terminated at any time by Mr Doyle giving the Company not less than three month's written notice. The Company may terminate the agreement without cause by providing not less than three months written notice or by making a lump sum payment in lieu of any such period of notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Doyle's employment at any time without any compensation payable.

Mr Wayne Kernaghan

Non-Executive Director (appointed 26 June 2012)

The Company entered into a service agreement with Mr Kernaghan on 26 June 2012. Under the terms of the present contract:

- Mr Kernaghan is paid a service fee of $65,000 per annum.
- Mr Kernaghan will provide his services as director for two days per month.
- The service agreement may be terminated at any time by Mr Kernaghan giving the Company not less than three month's written notice. The Company may terminate the agreement without cause by providing not less than three months written notice or by making a lump sum payment in lieu of any such period of notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Kernaghan's employment at any time without any compensation payable.

Mr Philip Re

Non-Executive Director (resigned 28 May 2012)

The Company entered into a service agreement on 11 November 2010 with Parkinson Corporate Pty Limited, a company of which Mr Re was a director. On 30 June 2011, the contract was transferred to Regency Corporate Pty Ltd, a company of which Mr Re is a director. Under the terms of the contract:

- Mr Re was paid a service fee of $65,000 per annum.
- Mr Re provided his services as director for two days per month.
- Upon resignation, Mr Re agreed to provide consulting services to the Company, if required.
- Parkinson Corporate Pty Limited was granted 3,500,000 unlisted equity settled Share options through the Company's Incentive Option Scheme during the year ended 30 June 2011. Upon Mr Re's resignation 2,870,000 of these options were cancelled on 27 July 2012. The terms of the options are set out in section C of this remuneration report.

- The service agreement was able to be terminated at any time by Mr Re giving the Company not less than three month's written notice. The Company was able to terminate the agreement without cause by providing not less than three months written notice or by making a lump sum payment in lieu of any such period of notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company was able to terminate Mr Re's employment at any time without any compensation payable.

Mr Paul Lloyd

Non-Executive Director (resigned 28 May 2012)

The Company entered into a service agreement on 11 November 2010 with Coral Brook Pty Limited, a company of which Mr Lloyd is a director. Under the terms of the contract:

- Mr Lloyd was paid a service fee of $65,000 per annum.
- Mr Lloyd provided his services as director for two days per month.
- Upon his resignation, Mr Lloyd agreed to provide consulting services to the Company if required.
- Coral Brook Pty Limited was granted 3,500,000 unlisted equity settled Share options through the Company's Incentive Option Scheme during the year ended 30 June 2011. The terms of the options are set out in section C of this remuneration report. Upon resignation, Mr Lloyd retained his Share options.
- The service agreement was able to be terminated at any time by Mr Lloyd giving the Company not less than three month's written notice. The Company was able to terminate the agreement without cause by providing not less than three months written notice or by making a lump sum payment in lieu of any such period of notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company was able to terminate Mr Lloyd's employment at any time without any compensation payable.

Mr Dion Cohen

Chief Financial Officer and Company Secretary (appointed 11 November 2010)

The Company entered into a consultancy agreement with effect from 1 September 2010 with Formulate Consulting Pty Limited, a company of which Mr Cohen is a director. Under the terms of the present contract:

- Mr Cohen is paid consulting fees of $120,000 per annum for his services as Chief Financial Officer and $55,000 per annum for his services as Company Secretary.
- In respect of Mr Cohen's service, an incentive payment of $10,938 was accrued at 30 June 2012. The incentive payment was based on certain performance targets being met.
- Mr Cohen was granted 2,500,000 unlisted equity settled Share options through the Company's Incentive Option Scheme during the year ended 30 June 2011. The terms of the options are set out in section C of this remuneration report.
- The service agreement may be terminated at any time by Mr Cohen giving the Company not less than six month's written notice. The Company may terminate the agreement without cause by providing not less than six months written notice or by making a lump sum payment in lieu of any such period of notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Cohen's employment at any time without any compensation payable.

Mr Helvécio Pires

Chief Operating Officer (appointed 17 August 2011, resigned 7 September 2012)

The Company entered into a fixed term contract with Mr Pires on 17 August 2011. The employment term was for 12 months, subject to termination provisions. Under the terms of the contract:

- Mr Pires was paid a consulting fee of R$281,000 ($153,033) per annum for his services as Chief Operating Officer.
- In respect of Mr Pires' service, an incentive payment of R$23,770 ($12,945) was accrued at 30 June 2012. The incentive payment was based on certain performance targets being met.

- The service contract was able to be terminated by SAFM giving ninety days' notice in writing, or by SAFM paying Mr Pires six months' equivalent of the aggregate service fee payable from the end of the month in which such termination were to become effective. SAFM was also able to terminate the service contract without notice if Mr Pires is in breach of the service contract without making any termination payment.

Mr José Márcio Paixao

Chief Development Officer (appointed 17 August 2011)

The Company entered into a fixed term contract with Mr Paixao on 17 August 2011. The employment term is for 12 months, subject to termination provisions. After lapsing of the 12 month period, the contract was extended for an additional period of 12 months. Under the terms of the contract:

- Mr Paixao is paid a consulting fee of R$285,000 ($155,211) per annum for his services as Chief Development Officer.
- In respect of Mr Paixao's service, an incentive payment of R$47,002 ($25,597) was accrued at 30 June 2012. The incentive payment was based on certain performance targets being met.
- The service contract may be terminated by SAFM giving ninety days' notice in writing, or by SAFM paying Mr Paixao six months' equivalent of the aggregate service fee payable from the end of the month in which such termination becomes effective. SAFM may also terminate the service contract without notice if Mr Paixao is in breach of the service contract without making any termination payment.

Mr Eduardo Freitas

Chief Commercial Officer (appointed on 4 October 2010)

The Company entered into an employment agreement with Mr Freitas on 04 October 2010. Under the terms of the present agreement:

- Mr Freitas is paid a salary of R$262,295 ($142,846) per annum for his services as Chief Commercial Officer.
- In respect of Mr Freitas's service, an incentive payment of R$37,032 ($20,168) was accrued at 30 June 2012. The incentive payment was based on certain performance targets being met.
- The service contract may be terminated by giving ninety days' notice in writing by either party. SAFM may also terminate the service contract without notice if Mr Freitas is in breach of the service contract without making any termination payment.

Mr Rodrigo Branco

President – Brazil operation (resigned 31 July 2011)

The Company entered into a service agreement with Branco Consultoria, a company of which Mr Branco is a director. Mr Branco was also a director of SAFM Brazil. Under the terms of the contract:

- Mr Branco was paid a consulting fee of R$68,000 ($37,033) for his services as President.
- Mr Branco was granted 2,500,000 unlisted equity settled Share options through the Company's Incentive Option Scheme during the year ended 30 June 2011. These options lapsed upon Mr Branco's resignation on 31 July 2011.
- The service agreement was terminated by Mr Branco giving the Company one month written notice.

Mr Glauco Mol

Acting Chief Operations Officer (resigned 30 September 2011)

The Company entered into a rolling contract with Minerar Consultoria, a company of which Mr Mol is a director. Under the terms of the contract:

- Mr Mol was paid a fee of R$141,400 ($77,006) up to his date of resignation.
- The contract was able to be terminated at any time by Mr Mol giving the Company not less than three month's written notice. The Company was able to terminate the agreement without cause by providing not less than three months written notice or by making a lump sum payment in lieu of any such period of notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company was able to terminate Mr Mol's employment at any time without any compensation payable.

C. Share Based Payments

Unlisted Share options granted and vested for 30 June 2012

The following table sets out the details of unlisted share options granted and vested as of 30 June 2012.

No unlisted share options were exercised during the year ended 30 June 2012.

	Tranche	Granted number of options	Grant date	Fair value per Option at grant date (note 23)	Exercise price per Option
Non-Executive Directors					
Terence Willsteed	1	1,666,667	24/2/2011	$0.05	$0.36
	2	1,666,667	24/2/2011	$0.03	$0.36
	3	1,666,666	24/2/2011	$0.02	$0.36
Stephen Turner	1	833,333	24/2/2011	$0.05	$0.36
	2	833,333	24/2/2011	$0.03	$0.36
	3	833,334	24/2/2011	$0.02	$0.36
Stephen Fabian	1	833,333	24/2/2011	$0.05	$0.36
	2	833,333	24/2/2011	$0.03	$0.36
	3	833,334	24/2/2011	$0.02	$0.36
Philip Re	1	1,166,667	24/2/2011	$0.05	$0.36
	2	1,166,667	24/2/2011	$0.03	$0.36
	3	1,166,666	24/2/2011	$0.02	$0.36
Paul Lloyd	1	1,166,667	24/2/2011	$0.05	$0.36
	2	1,166,667	24/2/2011	$0.03	$0.36
	3	1,166,666	24/2/2011	$0.02	$0.36
KMP					
Philip Hopkins	1	3,333,334	9/5/2011	$0.02	$0.36
	2	3,333,333	9/5/2011	$0.01	$0.36
	3	3,333,333	9/5/2011	$0.01	$0.36
Dion Cohen	1	833,333	24/2/2011	$0.05	$0.36
	2	833,333	24/2/2011	$0.03	$0.36
	3	833,334	24/2/2011	$0.03	$0.36
Total		29,500,000			

Terms of the options issued are detailed below:

a) These options were granted under the Incentive Option Scheme (approved by Shareholders on 18 February 2011) to Directors and Management and were subject to the following vesting conditions:

- One third of the options vested upon the Company's achievement of the production run rate over a continuous three month period of at least 800,000 tonnes per annum.
- A further one third of the options vested upon the Company identifying a JORC compliant resource of iron ore reaching or exceeding 50,000,000 tonnes.
- The final one third of the options vested upon the Company achieving a production run rate over a continuous twelve month period of at least 800,000 tonnes per annum.

In addition to the vesting conditions set out above, the Exercise Condition that must be satisfied before the options can be exercised, is that the volume weighted average price of the Company's shares traded on the ASX during the five days prior to exercise of the options is at least $0.50 per Share.

Expiry date	Number of options lapsed	First exercise date	Last exercise date	Number of options vested	% vested
31/12/2015	–	28/2/2011 (a)	31/12/2015	1,666,667	100%
31/12/2015	–	23/12/2011 (a)	31/12/2015	1,666,667	100%
31/12/2015	–	23/12/2011 (a)	31/12/2015	1,666,666	100%
31/12/2015	–	28/02/2011 (a)	31/12/2015	833,333	100%
31/12/2015	–	23/12/2011 (a)	31/12/2015	833,333	100%
31/12/2015	–	23/12/2011 (a)	31/12/2015	833,334	100%
31/12/2015	–	28/02/2011 (a)	31/12/2015	833,333	100%
31/12/2015	–	23/12/2011 (a)	31/12/2015	833,333	100%
31/12/2015	–	23/12/2011 (a)	31/12/2015	833,334	100%
31/12/2015	(956,667)	28/02/2011 (a)	31/12/2015	210,000	100%
31/12/2015	(956,667)	23/12/2011 (a)	31/12/2015	210,000	100%
31/12/2015	(956,666)	23/12/2011 (a)	31/12/2015	210,000	100%
31/12/2015	–	28/02/2011 (a)	31/12/2015	1,166,667	100%
31/12/2015	–	23/12/2011 (a)	31/12/2015	1,166,667	100%
31/12/2015	–	23/12/2011 (a)	31/12/2015	1,166,666	100%
31/12/2015	–	23/12/2011 (b)	31/12/2015	3,333,334	100%
31/12/2015	–	23/12/2011 (b)	31/12/2015	3,333,333	100%
31/12/2015	–	– (b)	31/12/2015	–	–
31/12/2015	–	28/02/2011 (a)	31/12/2015	833,333	100%
31/12/2015	–	23/12/2011 (a)	31/12/2015	833,333	100%
31/12/2015	–	23/12/2011 (a)	31/12/2015	833,334	100%
	(2,870,000)			23,296,667	

b) These options are subject to the following vesting conditions:

- One third of the options vested upon the Company identifying a JORC compliant resource of iron ore reaching or exceeding 50,000,000 tonnes.
- A further one third of the options vested upon the Company achieving a production run rate over a continuous twelve month period of at least 800,000 tonnes per annum.
- The final one third of the options vesting upon the achievement of a production run rate of or exceeding 1.5mtpa ROM for the year ending 31 December 2013 and eligible participant remaining as an executive employee of the Company on 31 December 2013.

In addition to the vesting conditions set out above, the Exercise Condition that must be satisfied before the options can be exercised, is that the volume weighted average price of the Company's shares traded on the ASX during the five days prior to exercise of the options is at least $0.50 per Share.

Unlisted share options granted and vested for 30 June 2011

On 18 February 2011, at an extraordinary General Shareholders Meeting, Shareholders approved the Company's Incentive Option Scheme. Refer to note 23 for further details of the Scheme. The following table sets out the details of unlisted Share options granted and vested for 30 June 2011.

No unlisted Share options were exercised during the year end 30 June 2011.

	Tranche	Granted number of options	Grant date	Fair value per Option at grant date (note 23)	Exercise price per Option
Non-Executive Directors					
Terence Willsteed	1	1,666,667	24/2/2011	$0.05	$0.36
	2	1,666,667	24/2/2011	$0.03	$0.36
	3	1,666,666	24/2/2011	$0.02	$0.36
Stephen Turner	1	833,333	24/2/2011	$0.05	$0.36
	2	833,333	24/2/2011	$0.03	$0.36
	3	833,334	24/2/2011	$0.02	$0.36
Stephen Fabian	1	833,333	24/2/2011	$0.05	$0.36
	2	833,333	24/2/2011	$0.03	$0.36
	3	833,334	24/2/2011	$0.02	$0.36
Philip Re	1	1,166,667	24/2/2011	$0.05	$0.36
	2	1,166,667	24/2/2011	$0.03	$0.36
	3	1,166,666	24/2/2011	$0.02	$0.36
Paul Lloyd	1	1,166,667	24/2/2011	$0.05	$0.36
	2	1,166,667	24/2/2011	$0.03	$0.36
	3	1,166,666	24/2/2011	$0.02	$0.36
KMP					
Philip Hopkins	1	3,333,334	9/5/2011	$0.02	$0.36
	2	3,333,333	9/5/2011	$0.01	$0.36
	3	3,333,333	9/5/2011	$0.01	$0.36
Dion Cohen	1	833,333	24/2/2011	$0.05	$0.36
	2	833,333	24/2/2011	$0.03	$0.36
	3	833,334	24/2/2011	$0.02	$0.36
Rodrigo Branco	1	833,333	24/2/2011	$0.05	$0.36
	2	833,333	24/2/2011	$0.03	$0.36
	3	833,334	24/2/2011	$0.02	$0.36
Total		32,000,000			

End of Audited Remuneration Report

Expiry date	Number of options lapsed	First exercise date	Last exercise date	Number of options vested	% vested
31/12/2015	–	28/2/2011 (a)	31/12/2015	1,666,667	100%
31/12/2015	–	(a)	31/12/2015	–	–
31/12/2015	–	(a)	31/12/2015	–	–
31/12/2015	–	28/2/2011 (a)	31/12/2015	833,333	100%
31/12/2015	–	(a)	31/12/2015	–	–
31/12/2015	–	(a)	31/12/2015	–	–
31/12/2015	–	28/2/2011 (a)	31/12/2015	833,333	100%
31/12/2015	–	(a)	31/12/2015	–	–
31/12/2015	–	(a)	31/12/2015	–	–
31/12/2015	–	28/2/2011 (a)	31/12/2015	1,166,667	100%
31/12/2015	–	(a)	31/12/2015	–	–
31/12/2015	–	(a)	31/12/2015	–	–
31/12/2015	–	28/2/2011 (a)	31/12/2015	1,166,667	100%
31/12/2015	–	(a)	31/12/2015	–	–
31/12/2015	–	(a)	31/12/2015	–	–
31/12/2015	–	(b)	31/12/2015	–	–
31/12/2015	–	(b)	31/12/2015	–	–
31/12/2015	–	(b)	31/12/2015	–	–
31/12/2015	–	28/2/2011 (a)	31/12/2015	833,333	100%
31/12/2015	–	(a)	31/12/2015	–	–
31/12/2015	–	(a)	31/12/2015	–	–
31/12/2015	(833,333)	28/2/2011 (a)	31/12/2015	–	100%
31/12/2015	(833,333)	(a)	31/12/2015	–	–
31/12/2015	(833,334)	(a)	31/12/2015	–	–
	(2,500,000)			6,500,000	

Directors' Report (continued)

Insurance of Directors, Officers and Auditor

During the year, SAFM paid a premium to insure directors and officers of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the directors and officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the directors and officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the directors and officers or the improper use by the directors and officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Group.

The details of the premium paid in respect of the insurance policies are not disclosed as such disclosure is prohibited under the terms of the contract.

The Group has, to the extent permitted by law, indemnified current directors and officers of the Group against a liability incurred as such by a directors and officer.

No premiums have been paid to indemnify the auditors.

Going Concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, we continue to adopt the going concern basis in preparing the accounts.

Proceedings of behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under s307C of the *Corporations Act 2001* is included on page 47 of this financial report and forms part of this Directors' Report.

Non-audit services

During the year, Grant Thornton, the Company's auditors, performed certain other services in addition to their statutory audit duties. The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact upon the impartiality and objectivity of the auditor; and
- The non-audit services do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditors of the Company, Grant Thornton, and its related practices for audit and non-audit services provided during the year are set out in note 9 to the Financial Statements.

Rounding

The consolidated Group has applied the relief available to it in ASIC Class Order 98/100 and accordingly certain amounts in the financial report and the Directors' report have been rounded off to the nearest $1,000.

Signed in accordance with a resolution of the Directors.

Phillip Hopkins
CEO

Sydney
27 September 2012

Auditor's Independence Declaration

Grant Thornton

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of South American Ferro Metals Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

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

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

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A G Rigele
Director - Audit & Assurance

28 September, Sydney

Financial Statements

Consolidated Income Statement for the year ended 30 June 2012

	Note	30 June 2012 $'000	30 June 2011 $'000
From continuing operations			
Sales revenue	3	17,693	3,544
Cost of goods sold		(9,329)	(637)
Gross profit		8,364	2,907
OTHER INCOME/(EXPENSES)			
Other income		16	–
Finance income		419	423
Administrative and other expenses	4	(4,628)	(3,896)
Site maintenance costs		–	(964)
Foreign exchange gain		–	33
Impairment of goodwill	5	–	(5,614)
Share-based payment expense	6	(381)	(997)
Finance costs		(2)	(389)
Profit/(loss) before tax		3,788	(8,497)
Income tax (expense)/credit	7	(1,479)	762
Profit/(loss) after tax for the year attributable to members of the parent entity		2,309	(7,735)
Earnings per share (cents per share)			
– Basic earnings/(loss) per share	10	0.68	(4.52)
– Diluted earnings/(loss) per share	10	0.62	(4.52)

These financial statements should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income for the year ended 30 June 2012

	30 June 2012 $'000	30 June 2011 $'000
Profit/(loss) after tax for the year attributable to members of the parent entity	2,309	(7,735)
Exchange differences on translating foreign controlled entities	(3,679)	(528)
Total comprehensive loss for the year, net of tax	(1,370)	(8,263)
Attributable to:		
Members of the parent entity	(1,370)	(8,263)

These financial statements should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position for the year ended 30 June 2012

	Note	30 June 2012 $'000	30 June 2011 $'000
ASSETS			
Current assets			
Cash and cash equivalents	11	5,403	7,582
Trade and other receivables	12	1,863	2,080
Prepayments	13	16	32
Inventories	14	831	1,273
Total current assets		8,113	10,967
Non-current assets			
Exploration and evaluation assets	15	2,617	1,187
Mining properties	16	9,765	12,519
Property, plant & equipment	17	4,946	2,771
Deferred tax asset	7	253	895
Other non-current assets	18	372	87
Total non-current assets		17,953	17,459
Total assets		26,066	28,426
LIABILITIES			
Current liabilities			
Trade and other payables	19	1,110	790
Taxation owing	7	460	916
Interest-bearing loans and borrowings	20	8	4
Provisions	21	458	570
Total current liabilities		2,036	2,280
Non-current liabilities			
Provisions	21	4,198	5,325
Total non-current liabilities		4,198	5,325
Total liabilities		6,234	7,605
Net assets		19,832	20,821
SHAREHOLDERS' EQUITY			
Contributed equity	23	48,312	48,312
Share-based payment reserve	24	1,378	997
Foreign currency translation reserve	25	(5,597)	(1,918)
Accumulated losses	26	(24,261)	(26,570)
Total shareholders' equity		19,832	20,821

These financial statements should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity for the year ended 30 June 2012

	Contributed Equity $'000	Share Based payment reserve $'000	Foreign currency translation reserve $'000	Accumu-lated losses $'000	Total Equity $'000
At 1 July 2010	25,235	–	(1,390)	(18,835)	5,010
Total Comprehensive profit/(loss) for the year	–	–	(528)	(7,735)	(8,263)
Equity Transactions With Owners	–				
Issue of ordinary shares	15,000	–	–	–	15,000
Share issue costs	(1,002)	–	–	–	(1,002)
Reverse acquisition equity issued	9,079	–	–	–	9,079
Share options expensed	–	997	–	–	997
At 30 June 2011	48,312	997	(1,918)	(26,570)	20,821
At 1 July 2011	48,312	997	(1,918)	(26,570)	20,821
Total Comprehensive profit/(loss) for the year	–	–	(3,679)	2,309	(1,370)
Equity Transactions With Owners					
Share options expensed	–	381	–	–	381
At 30 June 2012	48,312	1,378	(5,597)	(24,261)	19,832

These financial statements should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows for the year ended 30 June 2012

	Note	30 June 2012 $'000	30 June 2011 $'000
Cash Flows From Operating Activities			
Receipts from customers		17,908	1,480
Payments and advances to suppliers and employees			
(exclusive of GST and other Brazilian taxes payable)		(12,226)	(5,109)
Taxation and other social taxes paid		(1,581)	–
Interest paid		(2)	(199)
Net cash flows from/(used) in operating activities	28	4,099	(3,828)
Cash Flows From Investing Activities			
Interest received		419	423
Payments for restricted cash		(285)	(87)
Payments for property, plant & equipment		(3,127)	(332)
Payments for Exploration and Evaluation assets		(2,141)	(3,265)
Net cash flows (used in) investing activities		(5,134)	(3,261)
Cash Flows From Financing Activities			
Proceeds from issues of shares		–	13,998
Proceeds from borrowings		4	4
Repayment of borrowings		–	(1,894)
Proceeds from the SAFM BVI acquisition		–	2,103
Repayment of shareholder's loan		–	(1,130)
Net cash flows from financing activities		4	13,081
Net (decrease)/increase in cash held		(1,031)	5,992
Cash at the beginning of the financial period		7,582	1,283
Effects of exchange rates on cash holdings in foreign currencies		(1,148)	307
Cash and cash equivalents at the end of the year	11	5,403	7,582

These financial statements should be read in conjunction with the accompanying notes.

Notes to the Financial Statements for the year ended 30 June 2012

1. Corporate Information

This annual report covers South American Ferro Metals Limited ("SAFM Limited" or the "Company") and the entities it controlled at the end of, or during, the year ended 30 June 2012 ("SAFM" or the "Group"). The presentation currency of the Group is Australian Dollars ("$").

SAFM (ASX:SFZ) owns 100% of the producing Ponto Verde Iron Ore Project in the heart of the Iron Ore Quadrilateral in Brazil, 55 kilometres from the town of Belo Horizonte in the state of Minas Gerais. The Iron Ore Quadrilateral is a prolific iron ore mining area, and the Project is located proximate to established mining operations, iron and steel plants and existing infrastructure.

A description of the Group's operations is included in the review and results of operations in the Directors' report. The Directors' report is not part of the financial statements.

The Company is a company limited by shares incorporated in Australia whose shares and listed options are traded on the ASX under the codes "SFZ" and "SFZO".

2. Accounting Policies

Basis of preparation

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

On 11 November 2010, SAFM Limited (previously RVE) acquired all the shares in a company incorporated in the British Virgin Islands by the same name – South American Ferro Metals Limited ("SAFM BVI"). The acquisition met the requirements of reverse acquisition accounting and has been accounted for in accordance with AASB 3 *Business Combinations*. The legal subsidiary, SAFM BVI is treated as the acquirer, in accordance with reverse acquisition accounting principles, as it has obtained control over the operations of the legal parent, SAFM Limited. Based on this, the consolidated financial statements represent the share capital of SAFM BVI prior to the business combination plus the fair value of SAFM Limited determined under AASB 3. The retained earnings and other reserves reflect SAFM BVI. The comparative information presented is that of SAFM BVI.

It is recommended that the annual financial report be considered together with any public announcements made by SAFM Limited during the year ended 30 June 2012 and up to the issue date of this report, which SAFM has made in accordance with its continuous disclosure obligations arising under the *Corporations Act 2001.*

Rounding of amounts

The annual financial report and directors' report are presented in Australian Dollars and all values are rounded to the nearest thousand Dollar ($'000) unless otherwise stated under the relief available to the Company under ASIC Class Order 98/100.

In the application of IFRS, management is required to make judgements, estimates, and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements. Actual results may differ from estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future periods, if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable in the relevant notes to the financial statements, and note 2 (w).

Material accounting policies adopted in the preparation of this annual financial report are presented below and have been consistently applied unless otherwise stated.

a) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by SAFM Limited at the end of the reporting period. A controlled entity is any entity over which SAFM Limited has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries more than half of the voting power of the entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

Notes to the Financial Statements (continued) for the year ended 30 June 2012

2. Accounting Policies (continued)

a) Basis of consolidation (continued)

The Company and its controlled entities together are referred to as the Group. The effects of all transactions between entities in the Group are eliminated in full.

Where control of an entity is obtained during a financial year, its results are included in the consolidated income statement from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at the fair value at the acquisition date and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed. Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

b) Foreign currency translation

The consolidated financial statements are presented in Australian dollars (AUD), which is also the functional currency of the parent company.

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the AUD (the Group's presentation currency) are translated into AUD upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into AUD at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation currency at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into AUD at the closing rate.

c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and in the bank, and other short-term deposits with an original maturity of three months or less. Bank overdrafts are shown separately in current liabilities on the Statement of Financial Position. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

d) Trade and other receivables

Trade receivables, which are due for settlement no more than 30 days from the date of the final invoice, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for uncollectible amounts. The final invoice is issued once the product is received and final specification agreed by the customer. Collectibles of trade receivables are reviewed on an ongoing basis and a provision for non-recovery is made accordingly. Debts which are known to be uncollectible are written off. The difference between the carrying value of receivables and present value of the expected future cash flows are accounted for against the carrying value of receivables and as an interest charge. Fair value adjustments from commodity price sensitive sales are accounted for against the relevant receivables.

Property, plant and equipment are recorded at historical cost less accumulated depreciation and any impairment. The carrying value of assets is reviewed for impairment at the reporting date. An asset is immediately written down to its recoverable amount if the carrying value of the asset exceeds its estimated recoverable amount.

The depreciation rates per annum for each class of fixed asset are as follows:

Property & buildings:	4%
Plant and equipment:	between 10% – 20%
Furniture & fittings:	10%
Computer equipment:	20%
Motor vehicles:	20%
Decommissioning asset:	Production rate

Subsequent expenditure relating to an item of property, plant and equipment, that has already been recognised, is added to the carrying amount of the asset if the recognition criteria are met.

All assets are depreciated over their anticipated useful lives up to their residual values using a straight-line depreciation basis. These useful lives are determined on the day of capitalisation and are re-assessed annually by Management.

The decommissioning asset is amortised over the expected remaining life of mine being 40 years, using the unit of production method based on proven and probable ore reserves. Land is not depreciated.

Major maintenance and repairs

Expenditure on major maintenance re-builds or repairs comprise the cost of replacement assets or parts of assets and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Group through an extended life, the expenditure is capitalised.

Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced asset which is immediately written off. All other day to day maintenance costs are part of production cost.

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable or at least on an annual basis.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amount.

Decommissioning asset

The Group provides for decommissioning and restoration which include any cost to dismantle and removal of certain items of plant and equipment. The cost of an item includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs when an item is acquired or as a consequence of having used the item during that period. This asset is depreciated on the basis of the current estimate of the useful life of the asset.

In accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets an entity is also required to recognise as a provision the best estimate of the present value of expenditure required to settle the obligation. The present value of estimated future cash flows is measured using a current market discount rate.

f) Mining properties

Mining properties, comprising of mineral rights and surface rights, are recorded at historical cost less accumulated amortisation and any impairment. The carrying value of assets is reviewed for impairment at reporting date. An asset is immediately written down to its recoverable amount if the carrying value of the asset exceeds its estimated recoverable amount.

Mining properties that are being depleted are amortised over the expected remaining life of mine being 20 years, using the unit of production method based on proven and probable ore reserves.

Subsequent expenditure relating to mineral rights or surface rights, that have already been recognised, is added to the carrying amount of the asset if the recognition criteria are met.

Impairment

The carrying values of mining properties are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable or at least on an annual basis.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Notes to the Financial Statements (continued)
for the year ended 30 June 2012

2. Accounting Policies (continued)

f) Mining properties (continued)

Impairment (continued)

If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amount.

g) Acquisition, exploration, evaluation and development costs

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit or loss in the year in which the decision to abandon the area is made.

A regular review for impairment is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of decommissioning and restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on a discounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

h) Inventories

Run of mine ore and beneficiated ore (Sinter Feed, Small Lump and Concentrate) stockpiles are physically measured or estimated and valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of selling the product.

Cost is determined by the weighted average method and comprises direct purchase costs and an appropriate portion of fixed and variable overhead costs, including depreciation and amortisation, incurred in converting materials into finished goods. The cost of production is allocated to joint products using a production ratio. Separately identifiable costs of conversion of each product are specifically allocated.

Materials and supplies are valued at the lower of cost or net realisable value. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

i) Employee Benefits

Equity settled compensation:

The Group provides benefits to employees (including Directors) of the Group and other service providers or strategic equity partners in the form of share-based payment transactions, whereby employees or other parties render services or provide goods in exchange for shares or rights over shares ("equity-settled transactions").

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using an option pricing method as well as a Monte Carlo simulation analysis is applied, if required, and taking into account vesting and probability conditions.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of SAFM ("market conditions").

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

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects:

i) the extent to which the vesting period has expired; and

ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

Where shares are issued at a discount to fair value either by reference to the current market price or by virtue of the Group providing financing for the share purchase on favourable terms, the value of the discount is considered a share based payment.

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

j) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Rehabilitation Provision

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site decommissioning and restoration in respect of contaminated land, is recognised when the land is contaminated.

The provision is the best estimate of the represent value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the decommissioning and restoration provision at the end of the reporting period.

The amount of the decommissioning and provision for future restoration costs is capitalised and is depreciated in accordance with the policy set out in note 2(e). The unwinding of the effect of discounting on the provision is recognised as a finance cost.

k) Leased assets

In accordance with AASB 117 *Leases*, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognised as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease. Leases of land and buildings are classified separately and are split into a land and a building element, in accordance with the relative fair values of the leasehold interests at the date the asset is recognised initially.

Depreciation methods and useful lives for assets held under finance lease agreements correspond to those applied to comparable assets which are legally owned by the Group. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed as part of finance costs.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss over the period of the lease.

All other leases are treated as operating leases. Payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Notes to the Financial Statements (continued) for the year ended 30 June 2012

2. Accounting Policies (continued)

k) Leased assets (continued)

Initial recognition and measurement

Financial assets are categorised as financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, available for sale financial assets or as derivatives designated as hedging

Initial recognition and measurement (continued)

instruments in an effective hedge, as appropriate. The Group determines the categorisation of its financial assets at initial recognition. Categorisation is re-evaluated at each financial year end. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except where the instrument is classified as "at fair value through profit or loss", in which case transaction costs are expensed to profit and loss immediately.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently re-measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature in twelve months after the end of the period (all other loans and receivables are included as non-current assets).

De-recognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
  a) the Group has transferred substantially all the risks and rewards of the asset, or
  b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset and not transferred control of the asset, a new asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows excluding assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

m) Financial liabilities

Initial recognition

Financial liabilities within the scope of AASB139 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value and in the case of loans and borrowings, directly attributable transaction costs. The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

i) At fair value through profit & loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by AASB 39. Separate embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the income statement.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Notes to the Financial Statements (continued)
for the year ended 30 June 2012

2. Accounting Policies (continued)

m) Financial liabilities (continued)

Options granted that are not part of a continuing share based payment relationship (i.e. there is no ongoing provision of goods and/or services and are denominated in a currency other than the entity's functional currency) are accounted for as derivative liabilities in accordance with AASB 139: *"Financial Instruments: Recognition and Measurement"* and IFRIC guidelines. Such options are recorded on the balance sheet at fair value with movements in fair value between being recorded in the income statement. In respect of the derivative liability, the change in the fair value of the derivative liability, during the period and cumulatively, is not attributable to changes in the credit risk of that liability.

In addition, contractual arrangements whereby the Company agrees to issue a variable number of shares are accounted for as a liability. To the extent that these contractual arrangements meet the definition of a derivative, the value of the contractual arrangement is recorded on the balance sheet at fair value with movements in fair value being recorded in the income statement.

ii) Loans and borrowings

All loans and borrowings are initially recognised at the fair value of the considerations received less directly attributable transaction cost. After initial recognition loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender or substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

n) Trade and other payables

Trade and other payables amounts represent liabilities for goods and services provided to the entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of invoice.

o) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised, as well as through the amortisation process.

p) Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits. Foreign currency translation differences arising on the translation of the Group's foreign entities are included in the translation reserve (see note 2 (b)).

Retained earnings include all current and prior period retained profits.

Dividend distributions payable to equity shareholders are included in 'other liabilities' when the dividends have been approved in a general meeting prior to the reporting date.

All transactions with owners of the parent are recorded separately within equity.

q) Earnings per share

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

The diluted earnings per share is calculated as net profit or loss attributable to members of the parent divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element. The weighted average number of shares was based on the consolidated weighted average number of shares in the reporting period, taking into account those issued in the reverse acquisition.

The net profit or loss attributable to members of the parent is adjusted for:

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

r) Income tax

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

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

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

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

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

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

s) Goods and services and sales tax

Australia

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST) except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of the asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

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

2. Accounting Policies (continued)

s) Goods and services and sales tax (continued)

Brazil

Revenues, expenses and assets are recognised net of the amount of Tax on the Circulation of Goods, Interstate and Intercity Transportation and Communication Services (ICMS), Social Integration Program and Contribution for Financing of Social Security tax (PIS/COFINS) and Brazilian Royalty tax on Mineral Exploration (CFEM) except:

- where the amount of ICMS or PIS/COFINS incurred is not recoverable from the taxation authority, it is recognised as part of the cost of the asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of ICMS or PIS/COFINS.
- the net amount of ICMS or PIS/COFINS recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

t) Revenue

Revenue is recognised and measured at the fair value of consideration received or receivable to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably.

Interest

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the shareholder's right to receive the payment is established.

u) Operating segments

Operating segments are identified based on the internal reports that are regularly reviewed by the Board of Director's, the entities' Chief Operating Decision Maker, for the purpose of allocating resources and assessing performance. The adoption of this "management approach" has resulted in the identification of reportable segments. The operating segments have been reviewed annually for impairment.

v) Significant management judgement in applying accounting policies and estimate uncertainty

When preparing the financial statements management undertakes a number of judgements, estimates and assumptions about recognition and measurement 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 estimated results.

Information about significant judgements, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below.

Deferred tax

The assessment of the probability of future taxable income in which deferred tax assets can be utilised is based on the Group's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the jurisdictions in which the Group operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilised without a time limit, that deferred tax asset is usually recognised in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

Decommissioning and restoration provision

The Group's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The Group recognises management's best estimate for assets retirement obligations in the period in which they are incurred. Actual costs incurred in the future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Units of production depreciation

Estimated mineable tonnes over the life of mine are used in determining the depreciation and/or amortisation of mine specific assets. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of mineable tonnes. These calculations require the use of estimates and assumptions, including the amount of mineable tonnes and estimates of future capital expenditure.

Exploration and Evaluation expenditure

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of a Joint Ore Reserves Committee (JORC) resource is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure.

The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available.

Inventories

Costs incurred in or benefits of the productive process are accumulated as stockpiles. Net realisable value tests are performed at least annually and represent the estimated future sales price of the product based on prevailing spot metals prices at the reporting date, less estimated costs to complete production and bring the product to sale.

Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile. Stockpile tonnages are verified by periodic surveys.

Valuation of share based payments

The key estimates and assumptions used in the valuation of share based payment plans are set out in note 2 (i) and note 23.

w) New accounting standards and interpretations

The accounting policies adopted are consistent with IFRS, Australian Accounting Standards and AASB interpretations. The Company has adopted all new and amended Australian Accounting Standards and AASB interpretations as at 1 July 2011.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Company for the annual reporting period ended 30 June 2012 are outlined below:

Notes to the Financial Statements (continued) for the year ended 30 June 2012

2. Accounting Policies (continued)

w) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets AASB 112	These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recoverable through sale. The amendments also incorporate SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.	1 Jan 2012	No material impact	1 July 2012
AASB 2011-3	Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments AASB 1049	This Standard makes amendments including clarifying the definition of the ABS GFS Manual, facilitating the orderly adoption of changes to the ABS GFS Manual and related disclosures to AASB 1049. Amendments to Australian Accounting Standards – Improvements to AASB 1049 can be found in AASB 2011-13.	1 July 2012	No material impact	1 July 2012
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 July 2012	No material impact	1 July 2012
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.	1 January 2013	No material impact	1 July 2013

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9 *(continued)*	Financial Instruments *(continued)*	b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: ▪ The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ▪ The remaining change is presented in profit or loss ▪ If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.	1 January 2013	No material impact	1 July 2013
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation – Special Purpose Entities*.	1 January 2013	No material impact	1 July 2013

Notes to the Financial Statements (continued) for the year ended 30 June 2012

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 10 *(continued)*	Consolidated Financial Statements *(continued)*	The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011-7.	1 January 2013	No material impact	1 July 2013
AASB 11	Joint Arrangements	AASB 11 replaces AASB 131 Interests in Joint Ventures and UIG-113 Jointly- controlled Entities – Non-monetary Contributions by Ventures. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method.	1 January 2013	No material impact	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	No material impact	1 July 2013

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	No material impact	1 July 2013
AASB 119	Employee Benefits	The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10.	1 January 2013	No material impact	1 July 2013

Notes to the Financial Statements (continued)
for the year ended 30 June 2012

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine	This interpretation applies to stripping costs incurred during the production phase of a surface mine. Production stripping costs are to be capitalised as part of an asset, if an entity can demonstrate that it is probable future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of an ore body for which access has been improved. This asset is to be called the "stripping activity asset". The stripping activity asset shall be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate. Consequential amendments were also made to other standards via AASB 2011-12.	1 January 2013	No material impact	1 July 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements AASB 124	This Amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.	1 July 2013	No material impact	1 July 2013
Annual Improvements 2009–2011 Cycle	Annual Improvements to IFRSs 2009–2011 Cycle	This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB. The following items are addressed by this standard: IFRS 1 First-time Adoption of International Financial Reporting Standards ■ Repeated application of IFRS 1 ■ Borrowing costs	1 January 2013	No material impact	1 July 2013

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
Annual Improvements 2009–2011 Cycle *(continued)*	Annual Improvements to IFRSs 2009–2011 Cycle *(continued)*	IAS 1 Presentation of Financial Statements ■ Clarification of the requirements for comparative information IAS 16 Property, Plant and Equipment ■ Classification of servicing equipment IAS 32 Financial Instruments: Presentation ■ Tax effect of distribution to holders of equity instruments IAS 34 Interim Financial Reporting ■ Interim financial reporting and segment information for total assets and liabilities	1 January 2013	No material impact	1 July 2013
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements: a) Tier 1: Australian Accounting Standards b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: a) For-profit entities in the private sector that have public accountability (as defined in this Standard) b) The Australian Government and State, Territory and Local Governments	1 July 2013	No material impact	1 July 2013

Notes to the Financial Statements (continued) for the year ended 30 June 2012

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 1053 *(continued)*	Application of Tiers of Australian Accounting Standards *(continued)*	The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: a) For-profit private sector entities that do not have public accountability b) All not-for-profit private sector entities c) Public sector entities other than the Australian Government and State, Territory and Local Governments. Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11 and 2012-1.	1 July 2013	No material impact	1 July 2013

3. Sales Revenue

	30 June 2012 $'000	30 June 2011 $'000
Sales revenue	**17,693**	3,544

4. Administrative and Other Expenses

	30 June 2012 $'000	30 June 2011 $'000
Accounting fees	**243**	217
Auditors' remuneration (note 9)	**122**	79
Consulting fees	**86**	100
Depreciation not in cost of goods sold	**4**	1
Directors and Key Management Personnel remuneration and fees, excluding share based payments (note 8)	**1,609**	1,562
Rent	**203**	170
Legal fees	**62**	128
Travel and accommodation	**531**	473
Employee costs – Brazil Office	**333**	430
Write Off of Exploration asset (a)	**705**	168
Other administrative expenses	**730**	568
	4,628	3,896

a) Write off of Exploration asset relates to the Three Sisters Project. The Board of Directors assessed the development of the Three Sisters Project and resolved to relinquish the tenements on 19 December 2011. The relinquishment of the Project resulted in a write off of the Project totalling $689,909. Additional consulting and legal fees of $15,339 were paid in relation to the two licenses during the surrender process.

5. Impairment of Goodwill

	30 June 2012 $'000	30 June 2011 $'000
Impairment of Goodwill (a)	–	5,614

a) *Goodwill of $5.6 million represents the difference between the fair value of the ordinary and performance shares issued in consideration for the acquisition of SAFM BVI and the fair value of the net assets and liabilities of SAFM Limited, at the date of the acquisition. The recoverability of goodwill is assessed on the future cash flows generated by the operations of SAFM Limited as a standalone company or as a cash generating unit. As the goodwill could not be supported by the operations of SAFM Limited as a single standalone company, the Board of Directors resolved to impair the goodwill in full for the financial year ended 30 June 2011.*

6. Share-Based Payment Expense

	30 June 2012 $'000	30 June 2011 $'000
Directors and KMP	381	386
Veritas Securities Limited ("Veritas")	–	611
	381	997

Refer to note 23 for details on the valuation of share options.

7. Income Tax Expense

A reconciliation between the income tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

	30 June 2012 $'000	30 June 2011 $'000
Profit/(loss) before tax	2,309	(8,497)
Statutory income tax rate for the Group	30%	30%
	693	(2,549)
Adjustment for tax rate differences in foreign jurisdictions	(507)	95
Adjustment for non-deductible expenses:		
– Impairment of Goodwill	–	1,684
– Other non-deductible expenses	558	429
Utilisation of tax losses not previously recognised	(91)	(895)
Deferred tax assets not brought to account in current financial year	826	451
Under-provision of prior year tax expense	–	23
Actual taxable income	1,479	(762)
Income tax expense comprises of:		
– Current tax expense	959	65
– Deferred tax income	520	(827)
	1,479	(762)

Notes to the Financial Statements (continued)
for the year ended 30 June 2012

7. Income Tax Expense (continued)

Tax owing

Tax owing comprises of the following:

	30 June 2012 $'000	30 June 2011 $'000
Sales tax liabilities	**266**	782
Current tax liabilities	**194**	134
	460	916

Deferred tax asset

Deferred tax asset that arise from temporary timing differences and unused tax losses can be summarised as follows:

	Balance at beginning of year $'000	Recognised in profit and loss $'000	Balance at end of year $'000
30 June 2012			
Temporary timing differences	**169**	**39**	**208**
Unused tax losses	**726**	**(559)**	**167**
Foreign Currency Translation Reserve	**–**	**(122)**	**(122)**
Recognised as:			
Deferred tax asset	**895**	**(642)**	**253**
30 June 2011			
Temporary timing differences	–	169	169
Unused tax losses	–	726	726
	–	895	895
Recognised as:			
Deferred tax asset	–	–	895

8. Interests of Directors and Key Management Personnel

The remuneration paid to Directors and KMP of the Group during the year comprises the following:

	30 June 2012 $'000	30 June 2011 $'000
Short-term employee benefits	1,611	1,255
Post-employment benefits	55	15
Incentive payments	126	–
Other fees (Refer to Section B of the remuneration report)	50	292
Less amounts included in cost of inventory	(233)	–
	1,609	1,562
Share based payment expenses	381	386
	1,990	1,948

For further details, please refer to the audited Remuneration Report which is included as part of the Directors' report.

Directors and KMP Options and Rights of Holdings

The number of unlisted options over ordinary shares held by each Director and KMP of the Group during the financial year is as follows:

30 June 2012	Balance at beginning of year '000	Granted as remun-eration '000	Exercised '000	Number of options lapsed '000	Balance at end of year '000	Vested during the year '000	Vested and exercisable '000	Vested and unexer-cisable '000
Terence Willsteed	5,000	–	–	–	5,000	3,333	–	5,000
Philip Hopkins	10,000	–	–	–	10,000	6,667	–	6,667
Stephen Fabian	2,500	–	–	–	2,500	1,667	–	2,500
Stephen Turner	2,500	–	–	–	2,500	1,667	–	2,500
Alan Doyle	–	–	–	–	–	–	–	–
Wayne Kernaghan	–	–	–	–	–	–	–	–
Philip Re	3,500	–	–	(2,870)	630	422	–	630
Paul Lloyd	3,500	–	–	–	3,500	2,333	–	3,500
Dion Cohen	2,500	–	–	–	2,500	1,667	–	2,500
Helvécio Pires	–	–	–	–	–	–	–	–
José Paixao	–	–	–	–	–	–	–	–
Eduardo Freitas	–	–	–	–	–	–	–	–
Rodrigo Branco	–	–	–	–	–	–	–	–
Glauco Mol	–	–	–	–	–	–	–	–
	29,500	–	–	(2,870)	26,630	17,756	–	23,297

Please refer to Table 1 of the remuneration report for details of the KMP position.

8. Interests of Directors and Key Management Personnel (continued)

Listed options details are set out on page 42 in the Director's Report, no movement occurred in relation to listed options during the year ended 30 June 2012.

30 June 2011	Balance at beginning of year '000	Granted as remun-eration '000	Exercised '000	Number of options lapsed '000	Balance at end of year '000	Vested during the year '000	Vested and exercisable '000	Vested and unexer-cisable '000
Terence Willsteed	–	5,000	–	–	5,000	1,667	–	1,667
Philip Hopkins	–	10,000	–	–	10,000	–	–	–
Stephen Fabian	–	2,500	–	–	2,500	833	–	833
Stephen Turner	–	2,500	–	–	2,500	833	–	833
Alan Doyle	–	–	–	–	–	–	–	–
Philip Re	–	3,500	–	–	3,500	1,167	–	1,167
Paul Lloyd	–	3,500	–	–	3,500	1,167	–	1,167
Dion Cohen	–	2,500	–	–	2,500	833	–	833
Rodrigo Branco	–	2,500	–	(2,500)	–	–	–	–
Glauco Mol	–	–	–	–	–	–	–	–
	–	32,000	–	(2,500)	29,500	6,500	–	6,500

The number of ordinary shares in SAFM Limited held directly or indirectly by each Director and KMP of the Group at 30 June 2012 and 30 June 2011 are as follows:

30 June 2012 SAFM Limited	Balance at beginning of year '000	Issued on exercise of options during the year '000	Other changes during the year '000	Conversion of Class B Performance shares '000	Conversion of Class C Performance shares '000	Balance at end of year '000
Terence Willsteed	1,368	–	–	684	684	2,736
Philip Hopkins	–	–	–	–	–	–
Stephen Fabian	22,300	–	–	11,150	11,149	44,599
Stephen Turner	30,845	–	–	15,422	15,423	61,690
Alan Doyle	32,458	–	–	16,228	16,228	64,914
Wayne Kernaghan	–	–	903	–	–	903
Philip Re	1,705	–	–	–	–	1,705
Paul Lloyd	950	–	–	–	–	950
Dion Cohen	76	–	248	38	38	400
Helvécio Pires	–	–	–	–	–	–
José Paixao	–	–	–	–	–	–
Eduardo Freitas	–	–	–	–	–	–
Rodrigo Branco	2,052	–	–	–	–	2,052
Glauco Mol	479	–	–	–	–	479
	92,233	–	1,151	43,522	43,522	180,428

30 June 2011 SAFM Limited	Balance at beginning of year (SAFM BVI) (a) '000	Shares in SAFM BVI converted into shares in SAFM Limited (a) '000	Issued on exercise of options during the year '000	Other changes during the year '000	Conversion of Class A Performance Shares (a) '000	Balance at end of year '000
Terence Willsteed	1,000	684	–	–	684	1,368
Philip Hopkins	–	–	–	–	–	–
Stephen Fabian	16,302	11,150	–	–	11,150	22,300
Stephen Turner	22,549	15,422	–	–	15,422	30,845
Alan Doyle	23,728	16,229	–	–	16,229	32,458
Philip Re	–	1,705	–	–	–	1,705
Paul Lloyd	–	950	–	–	–	950
Dion Cohen	55	38	–	–	38	76
Rodrigo Branco	1,500	1,026	–	–	1,026	2,052
Glauco Mol	350	239	–	–	239	479
	65,484	47,443	–	–	44,788	92,233

a) As per the SAFM BVI acquisition, all ordinary shares in SAFM BVI were converted at a ratio of 0.684 shares in SAFM Limited for every one share held in SAFM BVI.

Other Director and KMP Transactions

There have been no other transactions involving equity instruments other than those described in the tables above. Details of other related party transactions are set out in note 32.

9. Auditors' Remuneration

	30 June 2012 $'000	30 June 2011 $'000
Remuneration of the auditor of the Australian operation (Grant Thornton) for:		
– Audit and review of the financial report	55	48
– Taxation services	9	8
– Other assurance services	3	3
Remuneration of the auditor of the Brazilian operation (Grant Thornton) for:		
– Audit and review of the financial report	55	20
	122	79

Notes to the Financial Statements (continued) for the year ended 30 June 2012

10. Earnings Per Share

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

	30 June 2012 $	30 June 2011 $
Basic earnings/(loss) per share (cents per share)	**0.68**	(4.52)
Diluted earnings/(loss) per share (cents per share)	**0.62**	(4.52)
Net profit/(loss) attributable to ordinary shareholders ($'000)	**2,309**	(7,735)

	Shares	Shares
Weighted average number of ordinary shares used in the calculation of basic earnings	**340,584,825**	171,317,525
Weighted average number of ordinary shares used in the calculation of diluted earnings	**372,214,825**	171,317,525
Number of potential ordinary shares in issue.	**372,214,825**	353,507,998

11. Cash and Cash Equivalents

	30 June 2012 $'000	30 June 2011 $'000
Cash at bank	**5,403**	7,582

12. Trade and Other Receivables

	30 June 2012 $'000	30 June 2011 $'000
Trade debtors (a)	**1,821**	2,064
Tax refunds (b)	**42**	16
	1,863	2,080

a) Trade debtors relate to the outstanding receipts from sales. Payment terms are either cash on delivery or for a maximum of 30 days for approved customers. No impairment has been provided at 30 June 2012 (2011: nil).

b) Tax refunds due relating to the relevant Goods and Services Tax paid in Australia and Brazil.

13. Prepayments

	30 June 2012 $'000	30 June 2011 $'000
Prepayments	**16**	32

Prepayments relate to expenditure paid in advance for Director and Officers, travel and vehicle insurance.

14. Inventories

	30 June 2012 $'000	30 June 2011 $'000
Raw material, at cost	15	51
Concentrator Feed at net realisable value	650	–
Finished goods, at cost	166	1,222
	831	1,273

15. Exploration and Evaluation Assets

	30 June 2012 $'000	30 June 2011 $'000
Opening Balance	1,187	–
Exploration expenditure capitalised		
– Exploration and evaluation phases (a)	1,873	686
– Production phase	–	507
– Resource drilling program	268	–
Less		
– Amortisation	(6)	(6)
– Write Off (b)	(705)	–
– Foreign exchange movement	–	–
	2,617	1,187

The recoverability of the carrying amount of the exploration and evaluation assets is dependent upon the successful development of the area or where activities in the area have not yet reached that stage it permits reasonable assessment of the existence of economically recoverable reserves.

a) *Production phase exploration expenditure relate to expenditure incurred on the Ponto Verde project. These assets are amortised based on the current level of production at the mine over its estimated production life.*

b) *Write off relates to the surrender of gold mining exploration permits – EPM 14588 and EPM 15517, which are located 250km south of Charters Towers, Queensland, Australia and collectively referred to as "The Three Sisters Project".*

16. Mining Properties

30 June 2012	Cost $'000	Accumulated Amortisation $'000	Carrying Value $'000
Surface rights	2,359	(42)	2,317
Mineral rights	7,584	(136)	7,448
	9,943	(178)	9,765

Notes to the Financial Statements (continued)
for the year ended 30 June 2012

16. Mining Properties (continued)

30 June 2012	Carrying Value $'000	Foreign currency translation reserve $'000	Additions $'000	Disposals $'000	Amortisation $'000	Carrying Value $'000
Surface rights	2,970	(628)	–	–	(25)	2,317
Mineral rights	9,549	(2,022)	–	–	(79)	7,448
	12,519	(2,650)	–	–	(104)	9,765

30 June 2011	Cost $'000	Accumulated Amortisation $'000	Carrying Value $'000
Surface rights	2,996	(26)	2,970
Mineral rights	9,634	(85)	9,549
	12,630	(111)	12,519

30 June 2011	Carrying Value $'000	Foreign currency translation reserve $'000	Additions $'000	Disposals $'000	Amortisation $'000	Carrying Value $'000
Surface rights	3,246	(250)	–	–	(26)	2,970
Mineral rights	10,436	(802)	–	–	(85)	9,549
	13,682	(1,052)	–	–	(111)	12,519

17. Property, Plant & Equipment

30 June 2012	Cost $'000	Accumulated depreciation $'000	Carrying Value $'000
Decommissioning asset (a)	1,557	(28)	1,529
Plant	2,985	(63)	2,922
Furniture and Fittings	133	(13)	120
Computer equipment	45	(17)	28
Motor vehicles	150	(41)	109
Machinery and Equipment	130	(17)	113
Software	13	(6)	7
Buildings	45	(5)	40
Work in progress	78	–	78
	5,136	(190)	4,946

30 June 2012	Carrying value $'000	Foreign currency translation reserve $'000	Additions $'000	Adjust-ment $'000	Disposals $'000	Depre-ciation $'000	Carrying Value $'000
Decommissioning asset (a)	2,086	(442)	–	(98)	–	(17)	1,529
Plant	342	(64)	2,704	–	–	(60)	2,922
Furniture and Fittings	70	(13)	77	–	–	(14)	120
Computer equipment	30	(4)	11	–	–	(9)	28
Motor vehicles	33	(4)	106	–	–	(26)	109
Machinery and Equipment	114	(23)	36	–	–	(14)	113
Software	10	(1)	1	–	–	(3)	7
Buildings	40	(9)	13	–	–	(4)	40
Work in progress	46	(147)	179	–	–	–	78
	2,771	(707)	3,127	(98)	–	(147)	4,946

30 June 2011	Cost $'000	Accumulated depreciation $'000	Carrying Value $'000
Decommissioning asset (a)	2,103	(17)	2,086
Plant	357	(15)	342
Furniture and Fittings	71	(1)	70
Computer equipment	40	(10)	30
Motor vehicles	56	(23)	33
Machinery and Equipment	120	(6)	114
Software	15	(5)	10
Buildings	42	(2)	40
Work in progress	46	–	46
	2,850	(79)	2,771

Notes to the Financial Statements (continued)
for the year ended 30 June 2012

17. Property, Plant & Equipment (continued)

30 June 2011	Carrying value $'000	Foreign currency translation reserve $'000	Additions $'000	Disposals $'000	Depreciation $'000	Carrying Value $'000
Decommissioning asset (a)	–	–	2,103	–	(17)	2,086
Plant	332	(26)	51	–	(15)	342
Furniture and Fittings	2	–	69	–	(1)	70
Computer equipment	10	–	25	–	(5)	30
Motor vehicles	31	(3)	15	–	(10)	33
Machinery and Equipment	1	–	119	–	(6)	114
Software	5	–	7	–	(2)	10
Buildings	45	(4)	1	–	(2)	40
Work in progress	–	–	46	–	–	46
	426	(33)	2,436	–	(58)	2,771

a) *The provision for decommissioning and restoration 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 30 June 2012, the provisions have been calculated 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 4.92% per annum (2011: 6.5%). These estimates are then discounted to a present value, using a pre-tax discount of 9% per annum (2011: 9%). The decommissioning and restoration assets are amortised based on the current level of production at the mine over its estimated production life.*

18. Other Non-current Assets

	30 June 2012 $'000	30 June 2011 $'000
Restricted cash	372	87

Restricted cash represents funds set aside to pay for any future environmental rehabilitation of the mine. Monthly transfers to this account is calculated based on the lower of 0.025% of Revenue or R$20,000 per month. These funds are available, subject to the approval of the District Attorney, throughout the life of mine, should the government require any rehabilitation to be performed at any stage during the life of mine.

19. Trade and Other Payables

	30 June 2012 $'000	30 June 2011 $'000
Sundry creditors and accruals	113	133
Trade creditors	997	657
	1,110	790

Due to the short-term nature of these payables, the carrying values are assumed to approximate their fair values.

20. Interest-Bearing Loans and Borrowings

	30 June 2012 $'000	30 June 2011 $'000
Current liabilities		
Short term portion of lease liability (a)	8	4
	8	4

a) On 18 October 2011, SAFM Brazil purchased a vehicle for $44,992 (R$95,000) of which half was paid in cash and the remaining value of $22,496 (R$47,500) was placed on finance lease. Instalments are payable monthly at an interest rate of 0.35% per month.

21. Provisions

	30 June 2012 $'000	30 June 2011 $'000
Current provisions		
Employee benefits (a)	416	108
Environmental provision (b)	42	308
Other provisions (c)	–	154
	458	570
Non-current provisions		
Surface right payment provision (d)	2,359	2,996
Rehabilitation provision (e)	1,633	2,292
Royalty payment provision (f)	206	37
	4,198	5,325

The current provisions comprise the following:

	30 June 2012 $'000	30 June 2011 $'000
Employee benefits		
Opening balance	108	43
Foreign exchange movement	(46)	–
Provision recognised during the year	670	65
Provision utilised during the year	(316)	–
Closing balance	416	108
Environmental provision		
Opening balance	308	–
Foreign exchange movement	(66)	–
Provision recognised during the year	25	308
Provision utilised during the year	(225)	–
Closing balance	42	308

21. Provisions (continued)

The non-current provisions comprise the following:

	30 June 2012 $'000	30 June 2011 $'000
Surface right payment provision		
Opening balance	2,996	3,246
Provision recognised during the year	–	–
Foreign exchange movement in provision	(637)	(250)
Provision utilised during the year	–	–
Closing balance	2,359	2,996
Rehabilitation provision		
Opening balance	2,292	–
Foreign exchange movement	(477)	–
Provision recognised during the year	–	2,103
Unwinding of the discount	(84)	189
Provision utilised during the year	–	–
Provision adjustment	(98)	–
Closing balance	1,633	2,292
Royalty payment provision		
Opening balance	37	–
Foreign exchange movement	(8)	–
Provision recognised during the year	180	37
Provision utilised during the year	(3)	–
Closing balance	206	37

a) *The Employee benefits provision represents accrued annual leave and guaranteed 13th cheques payable to SAFM Brazil employees.*

b) *The Environmental provision represents the estimated costs for restoration of past environmental breaches.*

c) *Other Provisions represents INSS tax payable to the National Social Security Department in SAFM Brazil. These taxes were incurred by the previous owners of the mineral rights which SAFM assumed in order to obtain the current mining permit.*

d) *The Surface right payment provision represents the outstanding amount that is payable upon registration of the surface rights. There is currently a dispute between various parties concerning the ownership of these rights and it is unlikely that there will be a resolution of this dispute in the near future.*

e) *The Rehabilitation provision represents estimated the future decommissioning and restoration costs for the Ponto Verde project. This provision has been revised on 30 June 2012 in order to reflect the Company's improved understanding of the decommissioning and restoration costs.*

f) *The Royalty payments provision represents a surface rights royalty that is calculated based on 1% of net revenue. This royalty is payable to the owner of surface rights upon resolution of the current ownership dispute (refer above).*

22. Business Combination

On 22 September 2010, SAFM Limited consolidated its issued share capital on a one for two basis and on 11 November 2010 and acquired all the shares totalling 122,786,000 in a company incorporated in the British Virgin Islands by the same name – South American Ferro Metals Limited ("SAFM BVI"), which owned 100% of SAFM Mineração Limitada ("SAFM Brazil"). The acquisition price was settled via the issue of ordinary and performance shares to the shareholders of SAFM BVI as follows:

Class of share	Performance share milestone	Number (Pre-consolidated)	Number (Post-consolidated)
Ordinary shares	n/a	167,955,934	83,977,967
Class A Performance Shares	The production run rate over a continuous three month period is equal to or greater than 800,000 tonnes per annum.	167,955,934	83,977,967
Class B Performance Shares	A certified JORC compliant resource of iron ore of at least 50,000,000 tonnes	167,955,934	83,977,967
Class C Performance Shares	The earlier of: ■ Identifying a JORC compliant resource of Iron ore of at least 140,000,000 tonnes; or; ■ The production run rate over a continuous twelve month period is equal to or greater than 800,000 tonnes per annum.	167,955,934	83,977,967

Following the acquisition, the shareholders of SAFM BVI held 73% of the issued ordinary share capital of the Company, as well as the performance shares and thus obtaining effective control over its operations.

This transaction meets the requirements for reverse acquisition accounting.

The calculation of Goodwill is set out below:

	Acquiree's Carrying amount $'000	Fair Value $'000
Reverse acquisition equity issued	9,079	9,079
Less: Identifiable assets acquired and liabilities assumed	(3,465)	(3,465)
Cash acquired	(2,106)	(2,106)
Other assets acquired and liabilities assumed	(1,359)	(1,359)
Goodwill	5,614	5,614

The Reverse acquisition equity issued of $9.079 million represents the dilution in SAFM BVI arising from the issue of ordinary and performance shares as part of the SAFM BVI acquisition.

The accumulated loss of SAFM Limited has been consolidated from 11 November 2010, the date of the SAFM BVI acquisition and is included in the Statement of Comprehensive Income.

The Goodwill was not deemed recoverable through the operations of SAFM Limited as a stand-alone cash generating unit and it was resolved to write off Goodwill at 31 December 2010.

Notes to the Financial Statements (continued) for the year ended 30 June 2012

23. Contributed Equity

The movement in contributed equity for the year is as follows:

	30 June 2012 $'000	30 June 2011 $'000
Opening balance	**48,312**	25,235
Reverse acquisition equity issued (note 22)	**–**	9,079
Issue of ordinary shares (a)	**–**	13,998
Closing balance	**48,312**	48,312

	30 June 2012 Shares '000	30 June 2011 Shares '000
Opening balance	**241,192**	122,786
Shares issued to employees and directors	**–**	–
Conversion of shareholder's loan	**–**	–
Shares issued in lieu of services	**–**	–
Reversal of shares in SAFM BVI (note 22)	**–**	(122,786)
Issue of shares in SAFM Limited (note 22)	**–**	83,978
Acquisition of SAFM (note 22)	**–**	31,569
Issue of ordinary shares (a)	**–**	41,667
Conversion of Class A Performance shares into Ordinary shares (b)	**–**	83,978
Conversion of Class B Performance shares into Ordinary shares (c)	**83,978**	–
Conversion of Class C Performance shares into Ordinary shares (d)	**83,978**	–
Closing balance	**409,148**	241,192

a) On 12 November 2010, the Company raised $15 million through the issue of 41,666,667 ordinary shares at $0.36 per share. Capital raising costs amounted to $1 million.

b) On 28 February 2011, all the Class A performance shares were converted to 83,977,967 fully paid ordinary shares based on the achievement of the relevant performance share milestone.

c) On 23 December 2011, all the Class B performance shares were converted to 83,977,967 fully paid ordinary shares based on the achievement of the relevant performance share milestone.

d) On 27 October 2011, all the Class C performance shares were converted to 83,977,967 fully paid ordinary shares based on the achievement of the relevant performance share milestone.

The issued shares above rank pari-passu in all respects with existing ordinary shares, but are subject to the terms and conditions of the escrow provisions as set out in the restriction agreement entered into between the holder of the Performance shares and the Company.

Ordinary shares

Ordinary shares have no par value. Ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Listed Options

The following table sets out the listed options issued over ordinary shares granted and exercised during each year:

	30 June 2012 ('000)	30 June 2011 ('000)
Opening balance (a)	22,431	36,000
Options exercised	–	(1,138)
Two for one consolidation (b)	–	(17,431)
Options granted (a) and (c)	–	5,000
Closing balance	22,431	22,431

a) On 22 October 2009, SAFM Limited (then RVE) issued 26,000,000 listed options exercisable at $0.10 per share (pre consolidation) on or before 31 December 2014 for nil consideration to shareholders who took up the options to subscribe for shares in the non-renounceable rights issue. A further 10,000,000 listed options were issued by SAFM Limited (then RVE) on 22 November 2009 exercisable at $0.10 per share (pre consolidation) on or before 31 December 2014 for nil consideration to investors who subscribed in the sophisticated investors placement.

b) On 11 November 2010, the options were included in the one for two consolidation as part of the SAFM BVI acquisition.

c) On 13 September 2010, 5,000,000 listed options at $0.20 per share (10,000,000 at $0.10 per share pre-consolidated) were issued to Cunningham Peterson Sharbanee Securities Pty Limited for $5,000 in lieu of corporate advisory services performed for the Company. These options were issued prior to the SAFM BVI transaction and form part of pre-acquisition costs.

Unlisted Options

The following table sets out the unlisted options issued over ordinary shares granted and exercised during each year:

	2012 ('000)	2012 Weighted average fair value per option ($)	2011 ('000)	2011 Weighted average fair value per option ($)
Opening balance	34,500	0.04	–	–
Options granted to Veritas (a)	–	–	5,000	0.12
Options granted to Directors and KMP (b)	–	–	22,000	0.03
Options issued to CEO (b)	–	–	10,000	0.01
Options exercised	–	–	–	–
Options forfeited (c)	(2,870)	0.04	(2,500)	0.03
Closing balance	31,630	0.04	34,500	0.04

Capital Management

Management controls the capital of the Group in order to maintain a capital structure that will ensure the lowest cost of capital available to the Group. Management's objective is to ensure the Group continues as a going concern as well as to maintain optimal returns to shareholders. Capital Management is monitored through monthly Treasury reports, as well as detailed quarterly budgets that are prepared and presented to the Board.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders or issue new shares to reduce debt. Should a strategic acquisition be pursued, management may issue further shares on the market.

There are no externally imposed capital requirements.

Notes to the Financial Statements (continued)
for the year ended 30 June 2012

23. Contributed Equity (continued)

a) Options issued to Veritas

On 16 March 2011, 5,000,000 unlisted options were issued to Veritas for the provision of corporate advisory services. The terms and conditions of these options were as follows:

Exercise price: 45c per share
Expiry date: 30 June 2013

The options issued to Veritas are not subject to any vesting and exercise conditions and are expensed in share based payments in the Consolidated Income Statement for the year ended 30 June 2011. The Binomial options pricing model was used to value these options, using the following assumptions:

Grant date	16/03/2011
Exercise price at grant date	$0.45
Vesting date	16/03/2011
Expiry date	30/06/2013
Share price at date of grant	$0.33
Volatility	74.28%
Option life (years)	2
Dividend yield	–
Risk free investment rate	5.17%
Fair value at grant date	$0.12

b) Options granted to Directors and KMP

On 24 February 2011, options were issued to Directors and KMP. These options vest in three equal tranches based on performance milestones and exercise condition being reached. Refer to the remuneration report for further details on and vesting and exercise conditions.

The options were valued using the Binomial options pricing model using a Monte Carlo simulation analysis to take into account the vesting and exercise conditions. The following assumptions were used in the determining the fair value of the options:

Grant date	24/02/2011
Exercise price at grant date	$0.36
Expiry date	31/12/2015
Share price at date of grant	$0.37
Volatility	72.72%
Option life (years)	5
Dividend yield	–
Risk free investment rate	5.17%
Weighted average fair value at grant date *	$0.03

These options have been expensed within share based payments in the Income Statement.

On 9 May 2011, options were issued to the Chief Executive Officer on his appointment. These options vest in three equal tranches based on performance milestones and exercise conditions being reached. Refer to section D of the remuneration report for further details on vesting and exercise conditions.

These options were valued using the Binomial options pricing model using a Monte Carlo simulation analysis. The following assumptions were used in the determining the fair value of the options:

Grant date	9/05/2011
Exercise price at grant date	$0.36
Expiry date	31/12/2015
Share price at date of grant	$0.29
Volatility	70.54%
Option life (years)	5
Dividend yield	–
Risk free investment rate	5.17%
Weighted average fair value at grant date *	$0.01

* *The fair value of each tranche was determined by estimating the vesting date and the probability of each performance milestone being met.*

c) Options forfeited

Upon resignation of Mr Branco, 2,500,000 options with an exercise price of $0.36 per share and an expiry date of 31 December 2015 were forfeited.

Upon resignation of Mr Re, 2,870,000 options with an exercise price of $0.36 per share and an expiry date of 31 December 2015 were forfeited.

PERFORMANCE SHARES

As per the SAFM BVI acquisition, three classes of Performance shares were issued. These Performance shares are convertible into Ordinary shares on the achievement of the following performance share milestones:

Class of Performance shares	Performance Share Milestones	Number '000
Class A Performance Shares	The production run rate over a continuous three month period is equal to or greater than 800,000 tonnes per annum.	83,978
Class B Performance Shares	A certified JORC compliant resource of iron ore of at least 50,000,000 tonnes	83,978
Class C Performance Shares	The earlier of: – Identifying a JORC compliant resource of Iron ore of at least 140,000,000 tonnes; or; – The production run rate over a continuous twelve month period is equal to or greater than 800,000 tonnes per annum.	83,978
Closing balance		251,934

On 28 February 2011, the Class A Performance shares were converted to ordinary shares on the achievement of the performance share milestone.

On 23 December 2011, the Class B Performance Shares were converted to ordinary shares based on the achievement of the performance share milestone.

On 27 October 2011, the Class C Performance Shares were converted to ordinary shares based on the achievement of the performance share milestone.

Notes to the Financial Statements (continued) for the year ended 30 June 2012

24. Share-Based Payment Reserve

	30 June 2012 $'000	30 June 2011 $'000
Opening balance	997	–
Share-based payment expense	381	997
Closing balance	1,378	997

Refer to note 23 for further details on the valuation of these options.

25. Foreign Currency Translation Reserve

	30 June 2012 $'000	30 June 2011 $'000
Opening balance	(1,918)	(1,390)
Exchange differences on translating foreign controlled entities	(3,679)	(528)
Closing balance	(5,597)	(1,918)

The foreign currency translation reserve records exchange differences arising on the translation of foreign controlled subsidiaries.

26. Accumulated Losses

	30 June 2012 $'000	30 June 2011 $'000
Opening balance	(26,570)	(18,835)
Profit after tax attributable to the equity holders of the parent during the year	2,309	(7,735)
Closing balance	(24,261)	(26,570)

27. 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.

28. Reconciliation of Cashflows from Operating Activities

	30 June 2012 $'000	30 June 2011 $'000
Profit before income tax	3,788	(8,497)
Adjusted for:		
Non-cash items:		
Depreciation, amortisation and impairment	257	175
Unwinding of the discount in the rehabilitation provision	(84)	189
Adjustment to consulting fees	–	(118)
Share based payment expense	381	997
Impairment of Goodwill	–	5,614
Exploration expenses written off	705	168
Net interest and dividends received	(419)	(422)
Change in inventories	442	(1,273)
Change in trade and other receivables	163	(2,080)
Change in prepayments	16	(32)
Change in trade and other payables	374	887
Change in provisions	57	564
Add back taxation paid	(1,581)	–
Net cash from operating activities	4,099	(3,828)

29. Capital Commitments and Contingencies

SAFM Brazil

	30 June 2012 $'000	30 June 2011 $'000
Contracted for	1,934	883
Authorised but not contracted for	1,098	–
	3,032	883

Capital Commitments relate mainly to:

- Resource Definition programme including $528,746 (2011: $126,600) to Coffey International Limited for the supervision and reporting of the programme; $322,553 to Breicia and Friable for drilling work to be completed. (2011: $750,000 to Geologia e Sondagens Ltda and Minere Engenharia Ltda).
- Definitive Definition programme including $1.6million to Logicamms for engineering study for potential rail and port access.

Notes to the Financial Statements (continued)
for the year ended 30 June 2012

29. Capital Commitments and Contingencies (continued)

SAFM Limited

The minimum annual expenditure required by the Queensland Department of Natural Resources and mines on the exploration permits (EPM 14588 and EPM 15517) is as follows:

	30 June 2012 $'000	30 June 2011 $'000
Not later than one year	–	170
Later than one year but not later than two years	–	170
Later than two years but not later than five years (a)	–	340
Later than 5 years	–	–
	–	680

a) *The annual expenditure commitments will be subject to the Board's decision to renew the licenses after 11 March 2014. The Board of Directors assessed the development of the Three Sisters Project and resolved to relinquish the tenements on 19 December 2011. The relinquishment of the Project resulted in a write off of the Project totalling $705,248.*

Finance lease commitment

The minimum lease payments under finance lease arrangements are set out in the following table:

	30 June 2012 $'000	30 June 2011 $'000
Within 1 year	8	4
Between 1 and 5 years	–	–
Greater than 5 years	–	–
Total future lease payments	–	–
Less: future finance charges	–	–
Lease liability	8	4
Represented by:		
Current lease liability	8	4
Non-current lease liability	8	–
Lease liability	**8**	**4**

Operating lease commitment

The minimum lease payments under finance lease arrangements are set out in the following table:

	30 June 2012 $'000	30 June 2011 $'000
Within 1 year	139	139
Between 1 and 5 years	23	162
Greater than 5 years	–	–
Total future lease payments	162	301

Contingencies

There were no contingent assets and liabilities outstanding at 30 June 2012 and 30 June 2011.

30. Parent Company Information

Information relating to SAFM Limited

	30 June 2012 $'000	30 June 2011 $'000
Current assets	13	8,552
Total assets	46,349	49,488
Current liabilities	324	335
Total liabilities	324	335
Contributed equity	52,158	52,158
Accumulated losses	(7,511)	(4,002)
Share based payment reserve	1,378	997
Total shareholders' equity	46,024	49,153
Loss of the parent entity	(3,509)	(2,907)
Total comprehensive loss of the parent entity	(3,509)	(2,907)
Guarantees entered into by the parent entity in relation to the debts of its subsidiaries	–	–
Capital Commitments – refer to note 29 for further details	–	680

31. Events After the End of Reporting Period

On 8 August 2012, SAFM announced the approval of the Stage II Concentrator project. The Concentrator is estimated to cost $3.64 million and is expected to produce 378,000 tpa, thereby lifting total site mass recovery to an estimated 79% of 1.5Mtpa ROM feed.

The design of the plant will be modelled on a similar Wet High Intensity Magnetic Separation (WHIMS) plant constructed in Minas Gerais, therefore reducing any technology and project risk. Full commissioning of the plant is expected by the end of June 2013.

No other material matters or circumstances have arisen since 30 June 2012 that have significantly affected or may significantly affect the Group.

32. Related Party Transactions

The following represents the related party transactions in the Group.

Subsidiaries:

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

	Country of incorporation	30 June 2012	30 June 2011	30 June 2012 $'000	30 June 2011 $'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

At 30 June 2012, SAFM Limited received no management fees (2011:$10,000) from SAFM Brazil. Related party transactions exist between the companies within the Group.

32. Related Party Transactions (continued)

Key Management Personnel

Refer to the audited Remuneration Report and note 8 for details of remuneration and arrangements with Key Management Personnel.

Transactions with related parties

There were no related parties transactions during the year ended 30 June 2012.

33. Financial Risk Management

The Group's overall financial risk management strategy is to ensure that the Group is able to fund its business operations and expansion plans.

Exposure to credit risk, liquidity risk, foreign currency risk, interest rate risk and commodity price risk arises in the normal course of the Group's business. The Group's risk management strategy is set by and performed in the close co-operation with the Board and focuses on actively securing the Group's short to medium-term cash flows by limiting credit risk of customers, regular review of its working capital and minimising the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

Financial assets and liabilities

The Financial assets and liabilities for financial years 2011 and 2012 are reflected at amortised cost, and are not fair valued through the Statement of comprehensive income.

For all feasibility assessments including expansion planning, raising of debt funding, evaluation of acquisition opportunities and corporate strategy, the Group uses various methods to measure the types of risk to which it is exposed. These methods include cash flow forecasting, sensitivity and breakeven analysis.

Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk, including in interest rates, foreign currency, commodity and equity prices.

a) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables.

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contractual obligations that could lead to a financial loss to the Group.

Credit risk is managed through the maintenance of credit assessment and monitoring procedures and it is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group only trades with recognised, credit-worthy third parties and such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. A provision for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Doubtful debts are written off to the income statement. To date the Group has not been required to write off any significant debts.

Trade Receivables

All sales to local and pig iron producers are either settled in full at date of delivery or within 30 days for approved customers.

Trade and other receivables that fall into the category past due, not impaired are considered to be of high credit quality. The trade and other receivables are regularly assessed for impairment. There are no receivables past due and considered impaired.

Cash and Restricted cash

The credit risk policy aims to ensure that the Group is adequately protected against settlement risk for cash, investments and derivatives by transacting with reputable financial institutions with a minimum Fitch Ratings International long term credit rating of A (or equivalent S&P or Moody's rating) and where applicable, within stated limits. It is noted that the Group is not envisaged to hold large cash balances for extended periods of time. At the reporting date, cash deposits were spread amongst a number of financial institutions to minimise the risk of default by counterparties.

Other Receivables

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

The following table sets out the financial assets that are exposed to credit risk:

	30 June 2012 $'000	30 June 2011 $'000
Financial assets		
Cash and cash equivalents	5,403	7,582
Trade and other Receivables	1,863	2,080
Restricted cash	372	87
Total	7,638	9,749

Set out below is an ageing analysis on the Group's trade receivables:

	Total $'000	0-30 days $'000	31-60 days PDNI* $'000	61-90 days PDNI* $'000	91-120 days PDNI* $'000	120-150 days PDNI* $'000
Total receivables – 30 June 2012	1,821	1,804	4	1	3	9
Total receivables – 30 June 2011	2,080	243	–	–	–	1,837

* *Past due not impaired ("PDNI").*

Debtors' sales are recognised, in accordance with AASB 118 *"Revenue"*, when risks and rewards transfer. Sales are recognised on "Free On Truck".

b) Liquidity risk

Liquidity risk is the risk that there will be inadequate funds available to meet financial commitments as they fall due. The Group recognises the ongoing requirement to have committed funds in place to cover both existing business cash flows and provide reasonable headroom for cyclical debt fluctuations and capital expenditure programmes. The key funding objective is to ensure the availability of flexible and competitively priced funding from alternative sources to meet the Group's current and future requirements. The Group utilises a detailed cash flow model to manage its liquidity risk. This analysis shows that available sources of funds are expected to be sufficient over the lookout period. The Group attempts to accurately project the sources and uses of funds which provides an effective framework for decision making and budgeting.

33. Financial Risk Management (continued)

b) Liquidity risk (continued)

The table below summarises the maturity profile of the Company's contractual cash flow financial liabilities at 30 June 2012 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

Consolidated	Current $'000	Less than three months $'000	3-12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
As at 30 June 2012						
Trade and other payables	**1,110**	–	–	–	–	**1,110**
Tax owing	**460**	–	–	–	–	**460**
Finance leases	**8**	–	–	–	–	**8**
Total liabilities	**1,578**	–	–	–	–	**1,578**
As at 30 June 2011						
Trade and other payables	790	–	–	–	–	790
Tax owing	916	–	–	–	–	916
Finance leases	4	–	–	–	–	4
Total liabilities	1,710	–	–	–	–	1,710

The Group's existing cash resources and trade receivables exceed current liabilities (refer to note 11 and 12).

The following table represents the financial assets and liabilities denominated in foreign currencies:

	Foreign currency amount		Amount in $		Rates of exchange	
Consolidated	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012**	2011
Financial assets						
Cash and cash equivalents						
– Brazilian Real	**3,809**	2,458	**1,804**	1,479	**$/R$ 0.47**	$/R$ 0.60
– US Dollar	**39**	41	**39**	39	**$/US$ 0.98**	$/US$ 0.94
Trade and other receivables						
– Brazilian Real	**3,941**	3,430	**1,866**	2,064	**$/R$ 0.47**	$/R$ 0.60
Financial liabilities						
Trade and other payables						
– Brazilian Real	**2,460**	2,348	**1,165**	1,412	**$/R$ 0.47**	$/R$ 0.60
– US Dollar	**–**	–	**–**	–	**$/US$ 0.98**	$/US$ 0.94
Loans						
– Brazilian Real	**16**	6	**8**	4	**$/R$ 0.47**	$/R$ 0.60

The following table demonstrates the estimated sensitivity to a 10% increase and decrease in the different exchange rates the Group is exposed to, with all other variables held constant, on a pre-tax basis. Contributed equity is not affected by changes in foreign currency exchange rates.

Pre-tax profit higher/(lower)	30 June 2012 $'000	30 June 2011 $'000
$/R$ + 10%	484	496
$/R$ – 10%	(484)	(496)
$/US$ + 10%	4	4
$/US$ – 10%	(4)	(4)

c) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group is exposed to interest rate movement through interest bearing investments of surplus funds. Other than for finance leases, the Group has undrawn borrowing facilities of R$2,000,000 ($947,200) at year end (June 2011: R$2,000,000 ($1,200,000)).

The following table sets out the variable interest bearing and fixed interest bearing financial instruments of the Group:

	Variable interest $'000	Fixed interest $'000
2012		
Financial assets		
Cash and cash equivalents	5,403	–
Restricted cash	372	–
Financial liabilities		
Interest-bearing loans and borrowings	–	8
Total	5,775	8
2011		
Financial assets		
Cash and cash equivalents	7,582	–
Restricted cash	87	–
Financial liabilities		
Interest-bearing loans and borrowings	–	4
Total	7,669	4

The following table illustrates the estimated sensitivity to a 1% increase and decrease to interest rate movements.

Impact on pre-tax profit	30 June 2012 $'000	30 June 2011 $'000
Interest rates + 1%	58	77
Interest rates – 1%	(58)	(77)

Notes to the Financial Statements (continued) for the year ended 30 June 2012

33. Financial Risk Management (continued)

e) Commodity price risk

The Group is exposed to the risk of fluctuations in prevailing market commodity prices of Iron ore. The price of Iron ore is affected by numerous factors beyond the Group's control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns and speculative activities. The effect of these factors on the price of iron ore, and therefore the financial performance of the Group cannot accurately be predicted.

The Group's sensitivity to commodity price risk cannot be reliability determined due to the factors described above. The Group's detailed cashflow models assist in performing sensitivity analysis and monitoring this risk.

The Group is exposed to commodity price risk through the movement in contract iron ore prices that are based on an international iron ore index. SAFM has not entered into any forward commodity price contracts as at 30 June 2012 and is currently fully exposed to commodity price risk.

34. Company Details

The registered office of the Company is:

Level 11
151 Macquarie Street
Sydney, NSW,
Australia, 2000

The principal places of business are:

Sydney office
Level 11
151 Macquarie Street
Sydney, NSW, Australia, 2000

Perth office
8 Brodrick Street
Karrinyup, WA
Australia, 6018

Brazil office
Av Afonso Pena 3130
SL903 – Parte Cruzeiro
30130-009
Belo Horizonte MGBrazil

Directors' Declaration

The Directors of South American Ferro Metals Limited declare that:

1. the consolidated financial statements and notes, as set out on pages 49 to 96 are in accordance with the *Corporations Act 2001*, and:
    a) comply with Australian Accounting Standards (including the Australian Accounting Interpretations and the *Corporations Regulations 2001*); and
    b) give a true and fair view of the financial position as at 30 June 2012 and of its performance for the financial year ended on that date;
2. the Chief Executive Officer and Chief Financial Officer have each declared that:
    a) the financial records of the Company for the financial year have been properly maintained in accordance with s 286 of the *Corporations Act 2001*;
    b) the financial statements and notes for the financial year comply with the Accounting Standards; and
    c) the financial statements and notes for the financial year give a true and fair view;
3. In the Directors' opinion there are reasonable grounds to believe that South American Ferro Metals Limited will be able to pay its debts as and when they become due and payable.
4. The consolidated financial statements comply with International Reporting Standards.
5. This declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Board

Phillip Hopkins
27 September 2012

Independent Auditor's Report

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Independent Auditor's Report
To the Members of South American Ferro Metals Limited

Report on the financial report

We have audited the accompanying financial report of South American Ferro Metals Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, 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 year's end or from time to time during the financial year.

Directors responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Electronic presentation of audited financial report
This auditor's report relates to the financial report of South American Ferro Metals Limited and controlled entities for the year ended 30 June 2012 included on South American Ferro Metals Limited's web site. The Company's Directors are responsible for the integrity of South American Ferro Metals Limited's web site. We have not been engaged to report on the integrity of South American Ferro Metals Limited's web site. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

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

Auditor's opinion
In our opinion:

a the financial report of South American Ferro Metals Limited is in accordance with the Corporations Act 2001, including:

    i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

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

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Independent Auditor's Report (continued)

Report on the remuneration report

We have audited the remuneration report included in pages 23 to 35 of the directors' report for the year ended 30 June 2012. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of South American Ferro Metals Limited for the year ended 30 June 2012, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A G Rigele
Partner – Audit and Assurance

28 September 2012, Sydney

Additional Information for Listed Public Companies

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 25 September 2012.

A. Substantial Shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

Shareholder	Number of shares	% Holding
MASSIF LIMITED C/O ALLIANCE INVESTMENTS	44,598,804	10.90
TOPIX MANAGEMENT LTD	43,836,748	10.71
TIN ZONE HOLDINGS LTD	40,612,140	9.92
SUN WING GROUP LTD	40,612,140	9.92
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	31,250,916	7.64
GRAFTON RESOURCE INVESTMENTS	20,000,001	4.89

B. Distribution of Shares

Category (size of holding)	Total Holders	Units	% of Issued Capital
1 – 1,000	22	2,745	0.001
1,001 – 5,000	79	310,318	0.076
5,001 – 10,000	130	1,184,606	0.290
10,001 – 1,000,000	547	23,632,703	5.775
1,000,001 – max	204	384,017,371	93.858
Total	982	409,147,743	100

The number of shareholdings held in less than marketable parcels is 56,220.

C. Unlisted Options

The total number of unlisted options in issue is 31.6 million, of which 26.7 million are issued to Directors and KMP and 5 million are issued to Veritas.

D. Voting Rights

All shares carry one vote per unit without restriction.

Additional Information for Listed Public Companies (continued)

Twenty Largest Shareholders

The names of the twenty largest shareholders are:

Shareholders		Number of shares held	% Holding
1	MASSIF LIMITED	44,598,804	10.90
2	TOPIX MANAGEMENT LTD	43,836,748	10.71
3	TIN ZONE HOLDINGS LTD	40,612,140	9.93
4	SUN WING GROUP LTD	40,612,140	9.93
5	HSBC CUSTODY NOMINEES	30,549,305	7.47
6	GRAFTON RESOURCE INVESTMENTS	20,000,001	4.89
7	NATIONAL NOMINEES LIMITED	13,391,943	3.27
8	AFRO PACIFIC CAPITAL PTY LTD	11,729,992	2.87
9	PERSHING AUSTRALIA NOMINEES	10,000,000	2.44
10	ARGONAUT SECURITIES PTY	10,000,000	2.44
11	AFRICA PACIFIC CAPITAL (HK)	9,347,680	2.28
12	GEORGE EDWARD SILVANUS	8,754,384	2.14
13	PACIFIC RESOURCES SECURITIES	5,471,492	1.34
14	J P MORGAN NOMINEES AUSTRALIA	4,368,079	1.07
15	RODRIGO BRANCO	4,103,620	1.00
16	MARGARET JANE HUBBARD	3,830,044	0.94
17	MR IAIN DONALD PRATT	3,282,896	0.80
18	VALLIANT RESOURCES LIMITED	3,187,148	0.78
19	IBARRA INVESTMENTS LTD	3,009,320	0.74
20	PATERMAT PTY LTD	2,735,748	0.67

Stock Exchange Listing – Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Stock Exchange Limited.

Tenement Schedule

Tenement Number	Registered Title Holder	SAFM Interest
EPM 14588	South American Ferro Metals Limited	–
EPM 15517	South American Ferro Metals Limited	–

The Board of Directors assessed the development of the above tenements known as the Three Sisters Project and resolved to relinquish the tenements on 19 December 2011.

Corporate Directory

ABN 27 128 806 977

Directors

Terence Willsteed (Chairman)
Phillip Hopkins
Stephen Turner
Stephen Fabian
Alan Doyle
Wayne Kernaghan

Company secretary

Dion Cohen

Registered office

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South American Ferro Metals

South American Ferro Metals Ltd
ACN 128 806 977