



27 February 2013

Media Release/ASX Announcement

ASX Code: SFZ

## INTERIM FINANCIAL RESULTS FOR THE HALF YEAR TO 31 DECEMBER 2012

The Board of Directors of South American Ferro Metals Limited ("SAFM") releases the Company's Interim Financial Report for the six months ended 31 December 2012, which are attached.

The financial and operational highlights include:

- Net profit before tax of \$1.7 million for the half year, compared with a loss of \$99,529 for the comparative period.
- Half-yearly sales of 291,749 tonnes of beneficiated product, up 15% on the comparative period (2011: 253,459 tonnes).
- Sales revenue increased by 14% to \$9.2 million (2011: \$8.1 million).
- Beneficiated production increased by 36% to 315,470 tonnes during the period (2011: 231,803 tonnes).
- Since commissioning of the Concentrator in June 2012, there has been a steady increase in production levels, with record monthly Concentrate production achieved in January 2013.
- SAFM achieved its full licensed ROM production capacity for the 2012 calendar year.
- The Group's balance sheet remains strong, with shareholder equity of \$21.1 million and no long-term debt. Cash on hand at 31 December 2012 amounted to \$1.5 million.

Summary of Income Statement	Six months to 31 Dec 2012	Six months to 31 Dec 2011	% Change 31 Dec 2011 to 31 Dec 2012
Beneficiated production (tonnes)	315,470	231,803	36%
Sales (tonnes)	291,749	253,459	15%

	\$'000	\$'000	
Sales revenue	9,218	8,096	14%
Cost of goods sold	(5,297)	(4,906)	8%
Gross profit	3,921	3,190	23%
Other (expenses)/income	(2,210)	(3,288)	(33%)
Net finance costs	(3)	(1)	200%
Profit / (loss) before tax	<b>1,708</b>	<b>(99)</b>	n/a
Taxation	(369)	(646)	(43%)
Net profit / (loss) profit after tax	<b>1,339</b>	<b>(745)</b>	n/a
EBITDA	1,893	(177)	n/a
EPS (cents per share)	0.33	(0.28)	n/a

The details of SAFM's updated Resource Statement and Definitive Feasibility Study for the period of review is set out in the ASX announcement dated 30 January 2013.

SAFM Chairman Terence Willstead commented:

“The Company has performed well operationally over these past six months. Since completion of its Concentrator project on June 2012, production has steadily increased and Concentrate sales totalling 77,436 tonnes were achieved for the period ended 31 December 2012. SAFM expects full payback of its capital investment for the Concentrator in the current financial year, with the second Concentrator project scheduled for completion on 1 April 2013. We would like to commend SAFM’s management for its strong operational performance over the period of review, as well as maintaining its focus on its development projects. SAFM looks forward to completing its second Concentrator and Definitive Feasibility Study in the 2013 calendar year.”

-- Ends --

**For further information please contact:**

Dion Cohen  
Company Secretary  
Phone: +61 2 8298-2008  
[www.safml.com](http://www.safml.com)

**About South American Ferro Metals Limited:**

South American Ferro Metals Limited owns 100% of the mineral rights and property of the Ponto Verde Iron Ore Project in Brazil. Ponto Verde is located in the heart of the Iron Ore Quadrilateral, 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.

**Forward Looking Statements**

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



**SAFM** 

**SOUTH AMERICAN  
FERRO METALS LIMITED**

**INTERIM FINANCIAL  
STATEMENTS  
For the half-year ended  
31 December 2012**



## CORPORATE INFORMATION

ABN 27 128 806 977

---

### **Directors**

Terence Willsteed (Chairman)  
Philip Hopkins (Chief Executive Officer)  
Stephen Turner  
Stephen Fabian  
Alan Doyle  
Wayne Kernaghan

### **Company Secretary**

Dion Cohen

### **Registered office**

Level 11  
151 Macquarie Street  
Sydney, NSW,  
Australia, 2000  
Telephone: +61 2 8298 2000  
Facsimile: +61 2 8298 2020

### **Brazil office**

Av Afonso Pena 3130  
SL903 – Parte Cruzeiro  
30130-009  
Belo Horizonte MG  
Telephone: + 55 31 3281 8777  
Facsimile: + 55 31 3281 8997

### **Solicitors**

Baker & McKenzie  
Level 27, AMP Centre  
50 Bridge Street  
Sydney, NSW,  
Australia, 2000

### **Bankers**

National Australia Bank  
Level 36, 100 Miller Street  
North Sydney, NSW,  
Australia, 2060

### **Auditors**

Ernst & Young  
680 George Street  
Sydney, NSW,  
Australia, 2000

### **Share Registry**

Advanced Share Registry  
Level 6  
225 Clarence Street  
Sydney, NSW,  
Australia, 2000  
Telephone: +61 2 8096 3502

---

<b>DIRECTORS' REPORT</b>	4
<b>AUDITOR'S INDEPENDENCE DECLARATION</b>	7
<b>CONSOLIDATED INCOME STATEMENT</b>	8
<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME</b>	8
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>	9
<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY</b>	10
<b>CONSOLIDATED STATEMENT OF CASH FLOWS</b>	11
<b>NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS</b>	12
<b>DIRECTORS' DECLARATION</b>	20
<b>INDEPENDENT AUDITOR'S REVIEW REPORT</b>	21



Your Directors' submit their report for the half-year ended 31 December 2012.

## Directors

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

Name	Current Position	Date of appointment to Board
Terence Willstead	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
Alan Doyle	Non-executive Director	1 June 2011
Wayne Kernaghan	Non-executive Director	26 June 2012

## Review of Operations

Set out below is a review of significant activity for South American Ferro Metals Limited ("SAFM") for the half-year ended 31 December 2012.

### Production

Beneficiated production totalled 315,470 tonnes during the period (2011: 231,803 tonnes), broken down between Lump of 95,605 tonnes (2011: 86,278 tonnes), Sinter Feed of 134,755 tonnes (2011: 145,525 tonnes) and Concentrate of 85,110 tonnes (2011: nil). ROM Production during the period totalled 923,077 tonnes (2011: 618,877 tonnes) which resulted in SAFM achieving its full licensed capacity for the 2012 calendar year.

The significant increase of Beneficiated production for the six month period was due to the commissioning of the Stage I Concentrator in June 2012. Since commissioning, there has been a steady increase in production levels in line with the improved operating performance of the plant, with record production of 63,935 tonnes achieved in January 2013.

Lump and Sinter Feed production during the period was impacted by two unplanned events namely the existence of suspended solids in the process water, as well as the replacement of the plants screen deck in September 2012. A redesign of the settling ponds, together with a replacement of plant screens were implemented by the second week in October 2012.

### Sales

Sales over the period comprised of 91,247 tonnes of Lump (2011: 77,746 tonnes), 123,066 tonnes of Sinter Feed (2011: 175,713 tonnes) and 77,436 tonnes of Concentrate (2011: nil). In addition, the Company sold its excess undersize stocks totalling 7,734 tonnes in July 2012.

### Development projects

The progress of SAFM's development projects during the period under review is summarized as follows:

- Exploration of the Pont Verde's Resource

During the period, SAFM completed Phase II of its Resource Definition Programme on schedule and within budget with a total of 3,400 metres of drilling completed. The results of this phase of exploration significantly increased the Measured and Indicated components of the Resource from 60 million tonnes (Mts) at 41.61% Fe to 170.53 Mts at 41.25% Fe. The significant increase in its Measured and Indicated Resources underpins SAFM's strategy of providing the base Resource for the current Definitive Feasibility Study. The current JORC Resource at Ponto Verde is 277.9 million tonnes (Mt) at 41.30% Fe<sup>1</sup>.

<sup>1</sup>The JORC resource includes a Measured Resource of 70.4Mt at 41.64% Fe, an Indicated Resource of 100.13Mt at 40.97% Fe and an Inferred Resource of 107.37Mt at 41.39% Fe. The competent persons statement relating to this resource is set out in ASX announcement dated 16 November 2012.

- Stage II Concentrator

Construction has continued throughout the period and management believes that SAFM will meet its targeted completion date of 1 April 2013. Materials from the Stage I Concentrator requiring further processing are being stockpiled to ensure that there will be sufficient feed for the Stage II facility upon its completion.

- Definitive Feasibility Study ("DFS")

The DFS for the mine site expansion to 8 Mtpa has progressed, reflecting more positive than expected preliminary outcomes in the transport logistics study. As previously announced, the timeline for the completion of the DFS has been revised to November 2013. This was to accommodate the increase in the scope of works resulting from the inclusion of additional logistics planning and design elements.

#### Health & Safety

There were no reportable accidents or environmental incidents for the six months ended 31 December 2012, maintaining SAFM's exemplary safety record. This impeccable safety record has been maintained since the commencement of operations in November 2010.

#### **Results of operations**

SAFM has reported a net profit before tax of \$1,708,439 for the six month period ended 31 December 2012 (2011: loss: \$99,529), on Sales Revenue of \$9,217,533 (2011: \$8,096,467).

The Group's balance sheet remains strong with shareholder equity of \$21.1 million and no long term debt. Cash on hand at 31 December 2012 amounted to \$1,476,187.

Earnings before Interest, Depreciation and Amortisation ("EBITDA") for the period amounted to \$1,893,683<sup>2</sup> (December 2011: Loss of \$177,034) which in part funded total capital and exploration expenditure of \$4,213,288 for the six month period. The forecast cash flow generated from operations is expected to continue to fund the current capital expenditure programme.

The Company is focussed on unlocking significant shareholder value from its capital investment to date which is highlighted for the period under review, as follows:

- The Stage I Concentrator project was completed on 28 May 2012. Total Concentrate sales of 77,436 tonnes were recorded between October 2012 and December 2012. Based on current sales prices and production volumes, SAFM expects full payback of its capital investment in the current financial year.
- The Phase II Resource Definition Programme was completed in October 2012 with a total exploration expenditure of \$451,578 incurred during the period under review. The exploration resulted in significantly increased Measured and Indicated components of the Resource which supports SAFM's current expansion plans.
- Construction of the Stage II Concentrator project commenced on 27 July 2012 and a total capital expenditure of \$1,169,495 has been incurred for the six months to 31 December 2012. This project remains on budget and schedule for completion on 1 April 2012. SAFM expects full payback of its investment within 12 months.
- The Definitive Feasibility Study to expand its Ponto Verde mine to 8 Mtpa ROM is on track for completion by the end of FY2015. Work is progressing as planned with a total expenditure of \$562,396 incurred over the six months to 31 December 2012.

---

<sup>2</sup> EBITDA is calculated by adding back Depreciation & Amortisation of \$207,618, Finance income of \$70,791 and Finance costs of \$3,007 to Profit before tax of \$1,708,439.

**Significant Changes in the State of Affairs**

Other than the activities described in the Directors' report above there were no other significant changes in the state of affairs of the Company for the six months ended 31 December 2012.

**After Balance Date Events**

There were no significant events after balance sheet date.

**Auditor's Independence Declaration**

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

**Rounding**

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

Signed in accordance with a resolution of the Directors.



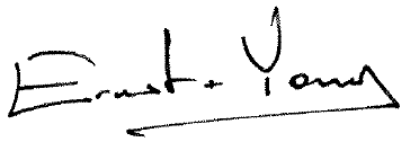
Stephen Turner

Sydney  
27 February 2013



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

In relation to our review of the financial report of South American Ferro Metals Limited for the half-year ended 31 December 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



Anton Ivanyi  
Partner  
Sydney  
27 February 2013

INTERIM CONSOLIDATED INCOME STATEMENT  
for the half-year ended 31 December 2012

	Note	31 Dec 2012 \$'000	31 Dec 2011 \$'000
<b>From continuing operations</b>			
Sales revenue	4	9,218	8,096
Cost of goods sold		(5,297)	(4,906)
Gross profit		3,921	3,190
<b>Other Income/(Expenses)</b>			
Finance income		71	218
Other income		10	3
Administrative and other expenses	5	(2,283)	(2,463)
Impairment of non-current assets		-	(690)
Share-based payment expense		(7)	(356)
Finance costs		(3)	(1)
<b>Profit/(loss) before tax</b>		<b>1,708</b>	<b>(99)</b>
Income tax expense		(369)	(646)
<b>Profit/(loss) after tax for the period attributable to members of the parent entity</b>		<b>1,339</b>	<b>(745)</b>
Earnings per share (cents per share)			
– Basic earnings/(loss) per share	6	0.33	(0.28)
– Diluted earnings/(loss) per share	6	0.28	(0.28)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
for the half-year ended 31 December 2012

	31 Dec 2012 \$'000	31 Dec 2011 \$'000
<b>Profit/(loss) after tax for the period attributable to members of the parent entity</b>	<b>1,339</b>	<b>(745)</b>
Other Comprehensive Income which cannot be reclassified through the Income Statement:	-	-
Other Comprehensive Income which can be reclassified through the Income Statement:		
Exchange differences on translating foreign controlled entities	(103)	(1,800)
<b>Other Comprehensive Income</b>	<b>(103)</b>	<b>(1,800)</b>
<b>Total comprehensive profit/(loss) for the period, net of tax</b>	<b>1,236</b>	<b>(2,545)</b>
Attributable to:		
<b>Members of the parent entity</b>	<b>1,236</b>	<b>(2,545)</b>

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
As at 31 December 2012

	Note	31 Dec 2012 \$'000	30 June 2012 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,476	5,403
Trade and other receivables		3,356	1,863
Prepayments		45	16
Inventories	7	2,394	831
Total current assets		7,271	8,113
<b>Non-current assets</b>			
Exploration and evaluation assets	8	2,154	2,617
Mining properties	9	11,128	9,765
Property, plant & equipment	10	7,905	4,946
Deferred tax asset		251	253
Other non-current assets		528	372
Total non-current assets		21,966	17,953
Total assets		29,237	26,066
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		2,675	1,110
Taxation owing		465	460
Interest-bearing loans and borrowings		450	8
Provisions	11	230	458
Total current liabilities		3,820	2,036
<b>Non-current liabilities</b>			
Provisions	11	4,342	4,198
Total non-current liabilities		4,342	4,198
Total liabilities		8,162	6,234
Net assets		21,075	19,832
<b>SHAREHOLDERS' EQUITY</b>			
Contributed equity		48,312	48,312
Share-based payment reserve	12	1,385	1,378
Foreign currency translation reserve		(5,700)	(5,597)
Accumulated losses		(22,922)	(24,261)
Total shareholders' equity		21,075	19,832

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
for the half-year ended 31 December 2012

	Contributed Equity	Share Based payment reserve	Foreign currency translation reserve	Accumu- lated losses	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 July 2011</b>	<b>48,312</b>	<b>997</b>	<b>(1,918)</b>	<b>(26,570)</b>	<b>20,821</b>
Loss for the period	-	-	-	(745)	(745)
Other comprehensive income	-	-	(1,800)	-	(1,800)
Total comprehensive profit/(loss) for the period	-	-	(1,800)	(745)	(2,545)
<b>Equity Transactions with Owners</b>					
Share options expensed	-	356	-	-	356
<b>At 31 December 2011</b>	<b>48,312</b>	<b>1,353</b>	<b>(3,718)</b>	<b>(27,315)</b>	<b>18,632</b>
<b>At 1 July 2012</b>	<b>48,312</b>	<b>1,378</b>	<b>(5,597)</b>	<b>(24,261)</b>	<b>19,832</b>
Profit for the period	-	-	-	1,339	1,339
Other comprehensive income	-	-	(103)	-	(103)
Total comprehensive profit/(loss) for the period	-	-	(103)	1,339	1,236
<b>Equity Transactions with Owners</b>					
Share options expensed	-	7	-	-	7
<b>At 31 December 2012</b>	<b>48,312</b>	<b>1,385</b>	<b>(5,700)</b>	<b>(22,922)</b>	<b>21,075</b>

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS  
for the half-year ended 31 December 2012

	Note	31 Dec 2012	31 Dec 2011
		\$'000	\$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		7,730	8,867
Payments and advances to suppliers and employees (exclusive of GST and other Brazilian taxes payable)		(7,439)	(6,711)
Taxation and other social taxes paid		(351)	-
Interest paid		(3)	(1)
<b>Net cash flows (used)/from operating activities</b>		<b>(63)</b>	<b>2,155</b>
<b>Cash flows from investing activities</b>			
Interest received		71	206
Payments for restricted cash		(157)	(147)
Payments for property, plant & equipment		(3,199)	(891)
Payments for exploration and evaluation assets		(1,014)	(1,009)
<b>Net cash flows (used in) investing activities</b>		<b>(4,299)</b>	<b>(1,841)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		450	42
Repayments of borrowings		(8)	-
<b>Net cash flows from financing activities</b>		<b>442</b>	<b>42</b>
<b>Net (decrease)/increase in cash held</b>		<b>(3,920)</b>	<b>356</b>
Cash at the beginning of the financial period		5,403	7,582
Effects of exchange rates on cash holdings in foreign currencies		(7)	(405)
<b>Cash and cash equivalents at the end of the period</b>		<b>1,476</b>	<b>7,533</b>

## 1. CORPORATE INFORMATION

This interim report covers South American Ferro Metals Limited (“SAFM” or the “Company” or the “Group”) and the entities it controlled at the end of, or during, the six months ended 31 December 2012. The presentation currency of the Group is Australian Dollars (“\$”).

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

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

### (a) Basis of preparation

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

These Interim Financial Statements do not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. These half-year financial statements should be read in conjunction with the Annual Report of South American Ferro Metals Limited as at 30 June 2012.

It is also recommended that the Interim Financial Statements be considered together with any public announcements made by South American Ferro Metals Limited and its controlled entities during the half-year ended 31 December 2012 and up to the issue date of this report, in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

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

The Interim Financial Statements have been approved and authorised for issue by the Board of Directors on 27 February 2013.

### (b) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by SAFM at the end of the reporting period. A controlled entity is any entity over which SAFM 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.

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.

### (c) Accounting policies, standards and interpretations

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



## **2. ACCOUNTING POLICIES (continued)**

Consequential amendments were also made to other standards via AASB 2011-9 which 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.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

### **(d) Estimates**

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

The judgements, estimates and assumptions applied in the Interim Financial Statements, including the key sources of estimation uncertainty were the same as those applied in the group's last Annual Financial Statements for the year ended 30 June 2012.

## **3. OPERATING SEGMENTS**

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

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

#### 4. SALES REVENUE

	31 Dec 2012	31 Dec 2011
	\$'000	\$'000
Sales revenue	9,218	8,096

#### 5. ADMINISTRATIVE AND OTHER EXPENSES

	31 Dec 2012	31 Dec 2011
	\$'000	\$'000
Accounting fees	118	124
Auditors' remuneration	18	53
Consulting fees	51	260
Depreciation of office equipment	2	5
Employment costs	888	673
Rent	104	104
Legal fees	93	26
Travel and accommodation	533	169
Inventory written down	-	473
Other administrative expenses	476	576
	2,283	2,463

#### 6. EARNINGS PER SHARE

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

	31 Dec 2012	31 Dec 2011
Basic earnings/(loss) per share (cents per share)	0.33	(0.28)
Diluted earnings/(loss) per share (cents per share)	0.28	(0.28)
Net profit/(loss) attributable to ordinary shareholders (\$'000)	1,339	(745)
	Shares '000	Shares '000
Weighted average number of ordinary shares used in the calculation of basic earnings.	409,148	269,184
Weighted average number of ordinary shares used in the calculation of diluted earnings	478,579	291,615
Total number of ordinary shares on issue.	409,148	409,148

## 7. INVENTORIES

	31 Dec 2012 \$'000	30 June 2012 \$'000
Raw material, at cost	394	15
Concentrator feed at cost (30 June 2012: net realisable value)	1,160	650
Finished goods, at cost	840	166
	2,394	831

## 8. EXPLORATION AND EVALUATION ASSETS

	31 Dec 2012 \$'000	30 June 2012 \$'000
Opening Balance	2,617	1,187
Exploration expenditure capitalised		
– Exploration and evaluation phases (a)	452	1,873
– Resource drilling program	562	268
Less:		
– Write off (b)	-	(705)
– Foreign exchange movement	(12)	-
– Adjustment (Reclassification) (c)	(1,465)	(6)
	2,154	2,617

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.

- Exploration and evaluation phases relates to expenditure incurred on the Phase II Resource Definition Study at the Ponto Verde Mine.
- 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”.
- This reclassification adjustment relates to the capitalised expenditure for Phase I Resource Definition Study. This phase is complete and reclassified from Exploration and Evaluation Assets into Mineral Rights.

## 9. MINING PROPERTIES

	Cost \$'000	Accumulated Amortisation \$'000	Carrying Value \$'000
31 Dec 2012			
Surface rights	2,345	(51)	2,294
Mineral rights	8,998	(164)	8,834
	11,343	(215)	11,128

	Opening Balance 1 July 2012 \$'000	Foreign currency translation reserve \$'000	Adjustment (Reclassification) \$'000	Additions \$'000	Disposals \$'000	Amortisation \$'000	Carrying Value 31 Dec 2012 \$'000
31 Dec 2012							
Surface rights	2,317	(13)	-	-	-	(10)	2,294
Mineral rights (a)	7,448	(43)	1,465	-	-	(36)	8,834
	9,765	(56)	1,465	-	-	(46)	11,128

- This reclassification adjustment relates to the capitalised expenditure for Phase I Resource Definition Study. This phase is complete and reclassified from Exploration and Evaluation Assets into Mineral Rights. These assets are amortised based on the current level of production over its estimated production life.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
for the half-year ended 31 December 2012

**9. MINING PROPERTIES (continued)**

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

30 June 2012	Opening Balance 1 July 2011 \$'000	Foreign Currency Translation Reserve \$'000	Additions \$'000	Disposals \$'000	Amortisation \$'000	Carrying Value 30 June 2012 \$'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

**10. PROPERTY, PLANT & EQUIPMENT**

31 December 2012	Cost \$'000	Accumulated Depreciation \$'000	Carrying Value \$'000
Decommissioning asset	1,548	(35)	1,513
Beneficiation plant	713	(74)	639
Concentrator plant	3,087	(163)	2,924
Furniture and fittings	133	(19)	114
Computer equipment	48	(21)	27
Motor vehicles	133	(43)	90
Machinery and equipment	200	(26)	174
Software	13	(7)	6
Buildings	51	(8)	43
Work in progress	2,375	-	2,375
	8,301	(396)	7,905

31 December 2012	Opening Balance 1 July 2012 \$'000	Foreign Currency Translation Reserve \$'000	Additions \$'000	Disposals \$'000	Depre- ciation \$'000	Carrying Value 31 Dec 2012 \$'000
Decommissioning asset	1,529	(9)	-	-	(7)	1,513
Beneficiation plant	472	(3)	200	-	(30)	639
Concentrator plant	2,451	(16)	634	-	(145)	2,924
Furniture and fittings	120	-	1	-	(7)	114
Computer equipment	28	-	4	-	(5)	27
Motor vehicles	109	(1)	-	(16)	(2)	90
Machinery and equipment	113	(1)	71	-	(9)	174
Software	7	(1)	1	-	(1)	6
Buildings	40	-	5	-	(1)	44
Work in progress	77	(2)	2,299	-	-	2,374
	4,946	(33)	3,215	(16)	(207)	7,905

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
for the half-year ended 31 December 2012

**10. PROPERTY, PLANT & EQUIPMENT (continued)**

30 June 2012	Cost \$'000	Accumulated Depreciation \$'000	Carrying Value \$'000
Decommissioning asset	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	Opening Balance 1 July 2011 \$'000	Foreign Currency Translation Reserve \$'000	Additions \$'000	Adjust- ment \$'000	Dispo- sals \$'000	Depre- ciation \$'000	Carrying Value 30 June 2012 \$'000
Decommissioning asset	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

## 11. PROVISIONS

	31 Dec 2012 \$'000	30 June 2012 \$'000
<b>Current provisions</b>		
Employee benefits	200	416
Environmental provision	-	42
Audit fee provision	30	-
	230	458
<b>Non-current provisions</b>		
Surface right payment provision (a)	2,345	2,359
Rehabilitation provision (b)	1,682	1,633
Royalty payment provision	315	206
	4,342	4,198

- a) The surface right payment provision of \$2,345,048 (USD\$2,791,250) relates to the purchase of the Ponto Verde Mine surface rights. As per the Ponte Verde purchase agreement dated 28 January 2008, 50% of this amount is payable upon court determination that the vendor is the legal owner and 50% upon transfer of the surface rights into SAFM name.

At present, there is a legal dispute between the vendor and two external parties surrounding the ownership of the surface rights. This dispute has resulted in the non-fulfilment of the payment conditions. Based on the current status of these proceeding, as well as the timing of Brazilian state court proceeding relating to land or property disputes, the Board of Directors does not believe that the payment conditions will be met within the next twelve months from the reporting date.

- b) 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 31 December 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: 5.91%). 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.

## 12. SHARE BASED PAYMENT RESERVE

	31 Dec 2012 \$'000	30 June 2012 \$'000
Opening balance	1,378	997
Share-based payment expense	7	381
Closing balance	1,385	1,378

During the period under review, the following options were issued by approval of shareholders:

- 2,500,000 Options to subscribe for the equivalent number of fully paid ordinary Shares in the Company be issued to Mining Investors Australia Pty Ltd, a company associated with Mr Wayne Kernaghan, a Director of the Company.
- 2,500,000 Options to subscribe for the equivalent number of fully paid ordinary shares in the Company be issued to Mr A Doyle, a Director of the Company.
- 5,000,000 Options to subscribe for the equivalent number of fully paid ordinary shares in the Company be issued to Patermat Pty Ltd, as trustee of TW Willsteed & Associates Superannuation Fund, a fund associated with Terence Willsteed, a Director of the Company.

In addition, 2,500,000 Options were issued to the DMC family Trust, a trust associated with Mr D Cohen, to subscribe for the equivalent number of fully paid ordinary Shares in the Company.

The above share Options were issued in accordance with the South American Ferro Metals Limited Incentive Option Scheme Rules and are subject to the following vesting conditions:

- (a) one third of the options will vest if employed by the Company on 31 December 2013;
- (b) one third of the options will vest if employed by the Company on 31 December 2014; and
- (c) one third of the options will vest if employed by the Company on 31 December 2015.



## 12. SHARE BASED PAYMENT RESERVE (continued)

In addition to the vesting conditions set out above, further Exercise Conditions that must be satisfied before Options can be exercised are the continuation of employment or directorship with the company and 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, must be at least \$0.50.

## 13. DIVIDENDS

The Board of Directors resolved not to declare an interim dividend for the period ended 31 December 2012.

## 14. RELATED PARTY TRANSACTIONS

### *Subsidiaries:*

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

	Country of incorporation	% OF EQUITY INTEREST		INVESTMENT	
		31 Dec 2012	30 June 2012	31 Dec 2012 \$'000	30 June 2012 \$'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

### *Key Management Personnel*

The Directors' remuneration and Chief Executive Officer's salary for the six month ended 31 December 2012 amounted to \$520,103 (2011: \$436,715).

During the period, SAFM issued Share Options to Directors and Key Management Personnel, refer to Note 12 – Share Based Payment Reserve.

## 15. CAPITAL COMMITMENTS

The capital commitments at 31 December 2012 are as follows:

### **SAFM Brazil**

	31 Dec 2012 \$'000	30 June 2012 \$'000
Contracted for	2,921	1,934
Authorised but not contracted for	-	1,098
	2,921	3,032

Capital Commitments relate mainly to \$2.1 million committed to the Stage II Concentrator Construction (30 June 2012: Nil), and \$425,089 to Logicamm for the execution the Definitive Feasibility Study (30 June 2012: \$1.6 million).

## 16. CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets and liabilities as at 31 December 2012 (30 June 2012: nil)

## 17. EVENTS AFTER THE END OF REPORTING PERIOD

There were no significant events after 31 December 2012.

**DIRECTORS' DECLARATION**

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

In the opinion of the Directors:

- (a) The financial statements and notes of South American Ferro Metals Limited for the half year ended 31 December 2012, as set out on pages 8 to 19, are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2011.
- (b) There are reasonable grounds to believe that the Company and Group will be able to pay its debts as and when they become due and payable.

On behalf of the board



Stephen Turner

Sydney  
27 February 2013

## **Independent review report to members of South American Ferro Metals Limited**

### **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of South American Ferro Metals Limited, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year financial year.

### **Directors' Responsibility for the Half-Year Financial Report**

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

### **Auditor's Responsibility**

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of South American Ferro Metals Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

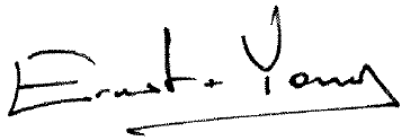
### **Independence**

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

## Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive style, with a horizontal line underneath.

Ernst & Young

A handwritten signature in black ink that reads 'A. Ivanyi' in a cursive style.

Anton Ivanyi  
Partner  
Sydney  
27 February 2013