



26 February 2014

ASX Announcement

ASX Code: SFZ

INTERIM FINANCIAL RESULTS FOR THE HALF YEAR TO 31 DECEMBER 2013

The Board of Directors of South American Ferro Metals Limited (ASX: SFZ) ("SAFM" or the "Company"), releases the Company's Interim Financial Report for the six months ended 31 December 2013, which is attached.

The financial and operational highlights include:

- Beneficiated production increased by 37% to 433,599 tonnes during the period (2012: 315,470 tonnes).
- Sales volumes increased by 4% to 302,726 tonnes compared to the prior period (2012: 291,749 tonnes).
- Despite an increase from the prior year, production during the period was impacted by a combination of negative factors including water reticulation issues and poor water quality. These factors impacted production by increasing production unit costs and lowering quality, which, in turn, lowered sales volumes and selling prices. These issues have since been resolved.
- SAFM has reported a net loss before tax of \$573,912 for the six month period ended 31 December 2013 (2012: profit: \$1,708,439), on revenue of \$10,919,822 (2012: \$9,217,533).
- The Group's balance sheet remains strong with shareholder equity of \$21.6 million. Cash on hand at 31 December 2013 amounted to \$5.1 million.
- Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") for the period amounted to \$1,219,138 (2012: \$1,893,683) which helped to fund the Company's working capital and Bankable Feasibility Study.
- SAFM acquired a 100 hectare property to the south of its Ponto Verde Mine which will be used for future tailings and waste disposal from its expansion project.

Summary of Income Statement	Six months to 31 Dec 2013	Six months to 31 Dec 2012	% Change 31 Dec 2012 to 31 Dec 2013
Beneficiated production (tonnes)	433,599	315,470	37%
Sales volumes (tonnes)	302,726	291,749	4%
	\$'000	\$'000	%
Sales revenue	10,920	9,218	18%
Cost of goods sold	(8,534)	(5,297)	61%
Gross profit	2,386	3,921	-39%
Other expenses	(2,501)	(2,145)	17%
Net finance costs	(459)	(68)	575%
(Loss) / profit before tax	(574)	1,708	n/a
Income tax expense	(482)	(369)	31%
Net (loss) / profit after tax	(1,056)	1,339	n/a
EBITDA	1,219	1,893	-36%
EPS (cents per share)	(0.26)	0.33	n/a



SAFM Managing Director, Stephen Turner, commented:

The results for 6 month period have been disappointing, reflecting the impact of the water issues experienced over the September 2013 quarter. Water reticulation problems and poor water quality impacted production output, thereby increasing unit costs. In addition, production quality was compromised, which, in turn, led to lower sales volumes and selling prices.

The Company has fully addressed these issues through the installation of a new thickener system as well as by completing its refurbishment program. In addition, the Company appointed a new Chief Operating Officer in December 2013 who expeditiously implemented positive modifications to the plants and embarked on a stringent cost reduction exercise.

Profitability continues to increase with the profits recorded in January 2014 reversing all of the losses for the current financial year.

The Bankable Feasibility Study continues to progress at a steady pace and the acquisition of the tailings and waste property marked a significant milestone in the Company's expansion project.

The Board believes that the solid platform from which SAFM is currently operating will ensure continued profitability for the remainder of the financial year.

For more information:

South American Ferro Metals Limited

Stephen Turner (Managing Director)

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About South American Ferro Metals Limited:

South American Ferro Metals Limited owns 100% of the mineral rights and property comprising 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.

SAFM currently sells three iron ore products from its Ponto Verde mine to local steel producers in Brazil. The Company is currently completing its Bankable Feasibility Study (BFS) to expand Ponto Verde to a capacity of 8 Mtpa ROM throughput, from its current 1.5 Mtpa licenced capacity.

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.

Website: www.safml.com



SAFM 



SOUTH AMERICAN FERRO METALS LIMITED

INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2013



CORPORATE INFORMATION

ABN 27 128 806 977

Directors

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

Company Secretary

Dion Cohen

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Auditors

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Share Registry

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DIRECTORS' REPORT	4
AUDITOR'S INDEPENDENCE DECLARATION	4
CONSOLIDATED INCOME STATEMENT	9
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	9
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	10
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	11
CONSOLIDATED STATEMENT OF CASH FLOWS	12
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS	13
DIRECTORS' DECLARATION	22
INDEPENDENT AUDITOR'S REVIEW REPORT	23

DIRECTORS' REPORT

Your Directors' submit their report for the half-year ended 31 December 2013.

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	Non-executive Chairman	11 November 2010
Stephen Turner	Managing Director Non-Executive Director	1 March 2013 11 November 2010 - 28 February 2013
Alan Doyle	Executive Director Non-Executive Director	1 March 2013 1 June 2011 - 28 February 2013
Stephen Fabian	Non-executive Director	11 November 2010
Wayne Kernaghan	Non-executive Director	26 June 2012
Rogério Caporali	Non-executive Director	1 August 2013

Review of Operations

Set out below is a review of significant activity for South American Ferro Metals Limited ("SAFM") for the half-year ended 31 December 2013.

Production

Beneficiated production increased by 37% to 433,599 tonnes during the period (2012: 315,470 tonnes), broken down between:

Beneficiated Production	Six months to 31 December 2013 (tonnes)	Six months to 31 December 2012 (tonnes)	% Change 31 Dec 2012 to 31 Dec 2013
Lump	112,157	95,605	17%
Sinter Feed	129,547	134,755	-4%
Concentrate	191,895	85,110	125%
Total	433,599	315,470	37%

ROM Production during the period totalled 798,824 tonnes (2012: 923,077 tonnes) which resulted in SAFM achieving its full licensed capacity for the 2013 calendar year.

The significant increase of Concentrate production for the six month period was due to the commissioning of the Stage II Concentrator in June 2013. Since commissioning, there has been a steady increase in production levels in line with the improved operating performance of the plant.

Despite an increase from the prior year, production during the period was impacted by a combination of factors including water reticulation issues and poor water quality. These problems impacted production by increasing production unit costs and lowering quality, which, in turn, lowered sales volumes and selling prices.

The Company addressed this problem by installing a new Thickener system which significantly removes solids from the water and embarked on a refurbishment program. The company also appointed a new Chief Operating Officer in December 2013 who has initiated positive change.

Production has greatly improved in the second quarter of the financial year, with record production of 251,099 beneficiated tonnes achieved by the end of the quarter ended December 2013 and the grades of all products having been restored.

DIRECTORS' REPORT (continued)

Sales

Sales volumes increased by 4% to 302,726 tonnes compared to the prior period (2012: 291,749 tonnes), broken down between:

Sales volumes	Six months to 31 December 2013 (tonnes)	Six months to 31 December 2012 (tonnes)	% Change 31 Dec 2012 to 31 Dec 2013
Lump	75,824	91,247	-17%
Sinter Feed	65,006	123,066	-47%
Concentrate	161,896	77,436	109%
Total	302,726	291,749	4%

Sales during the period were impacted due to the temporary non-availability of trucks, as well as sub-optimal production referred to above, yielding lower sales volumes and selling prices. SAFM managed to rectify the temporary truck shortage as well as restore product quality, leading to record sales volumes in the December 2013 quarter.

During the six months ended 31 December 2013, SAFM signed a sales contract with Vale as well as attracted 8 new customers during the last quarter, making it a significant supplier of ore to pig iron producers in the state of Minas Gerais.

Summary of Income Statement

	Six months to 31 Dec 2013	Six months to 31 Dec 2012	% Change 31 Dec 2012 to 31 Dec 2013
	\$'000	\$'000	%
Sales revenue	10,920	9,218	18%
Cost of goods sold	(8,534)	(5,297)	61%
Gross profit	2,386	3,921	-39%
Other (expenses)	(2,501)	(2,145)	17%
Net finance costs	(459)	(68)	n/a
(Loss) / profit before tax	(574)	1,708	n/a
Income tax (expense)	(482)	(369)	31%
Net (loss) / profit after tax	(1,056)	1,339	n/a
EBITDA	1,219	1,893	51%
EPS (cents per share)	(0.26)	0.33	n/a

Results of operations

SAFM has reported a net loss before tax of \$573,912 for the six month period ended 31 December 2013 (2012: profit: \$1,708,439), on Revenue of \$10,919,822 (2012: \$9,217,533).

The Group's balance sheet remains strong with shareholder equity of \$21.6 million. Cash on hand at 31 December 2013 amounted to \$5.1 million.

Earnings before Interest, Depreciation and Amortisation ("EBITDA") for the period amounted to \$1,219,138¹ (2012: \$1,893,683) which helped to fund its working capital and expansion.

Acquisition of waste and tailings properties

On 10 October 2013, SAFM announced the acquisition of a 100 hectare property to the south of its Ponto Verde Mine which will be used for future tailings and waste disposal in its expansion project. The total purchase consideration amounted to R\$11 million (\$5.4 million) which was settled by two payments totalling R\$6.5 million (\$3.2 million) before 31 December 2013 and the balance of R\$4.5 million (\$2.2 million) was paid on 3 January 2014.

¹ EBITDA is calculated by adding back Depreciation & Amortisation of \$1,017,407, Finance income of (\$779) and Finance costs of \$776,422 to loss before tax of \$573,912.

DIRECTORS' REPORT (continued)

Bankable Feasibility Study

SAFM commenced its BFS in February 2012. The following sets out the progress of the BFS over the period:

Mining:

- A preliminary mine schedule has been compiled which prescribes the selection of mining methods and equipment, as well as the targeted production rates.
- RMC Mine Services ("RMC") has been appointed to complete the Mining Study.
- A reserve estimate is currently being performed by RMC.

Process and design:

- The Characterization and Sampling Program Report was completed by RMC.
- Fundação Gorceix has completed three stages of the metallurgical testwork and with Magma is currently completing Stage 4 upon which the process route will be defined.
- LogiCamms is progressing in the design of the processing plant.
- Ausenco is currently designing the Concentrate Pipeline and Water Supply configuration.

Infrastructure

- SAFM completed the acquisition of a 100 hectares property south of its Ponto Verde Mine (refer above).
- A Trade-off study has been completed which identifies the optimal solution for combined mine waste and dry tailings disposal. Two sites have been selected for these stockpiles.
- Golder Associates performed a geological mapping of the Integrated Waste Landfill for the tailings and mine waste disposal. The geological mapping will be followed by detailed geotechnical investigations.
- A topographical aerial survey of the mine and a train terminal area has been completed.
- SAFM has entered into a memorandum of understanding with MRS to develop a logistics solution for the rail transportation of iron ore from SAFM's PVM to the port terminals at Baía de Sepetiba in the state of Rio de Janeiro, approximately 400 km from Ponte Verde mine.
- CEMIG is conducting a feasibility study for power supply to the mine. The study proposes that power be sourced from an existing CEMIG HV Substation. The 138 kV Power Line length is approximately 17 km from the Mine Site.
- Discussions are currently underway with port operators with regard to warehousing and port access.

Permits & Legal Support, Including Environmental Licenses

Applications for Environmental and Installation licenses were submitted to the relevant environmental and regulatory agencies in July 2013. SAFM expects these licenses to be granted in the 2014 calendar year.

SAFM has also completed the registration of landowners for the area along the proposed logistics corridor for the expansion.

Drawdown of Deutsche Bank Loan Facility

SAFM secured a two year loan of US\$15 million with Deutsche Bank on terms and conditions as set out in Note 14, Interest bearing loan, of these financial statements. The loan was fully drawn-down on 25 July 2013 and is repayable on 25 July 2015.

Health & Safety

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

Significant Changes in the State of Affairs

Other than the activities described in the Directors' report above there were no other significant changes in the state of affairs of the Company for the six months ended 31 December 2013.

After Balance Date Events

On 3 January 2014, SAFM settled the balance of R\$4.5 million (A\$2.2 million) owing in respect of the property acquisition (refer to Note 12, Vendor financing of Financial Statement).

Auditor's Independence Declaration

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

DIRECTORS' REPORT (continued)

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.

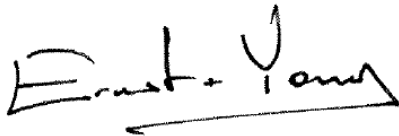
A handwritten signature in black ink, appearing to be 'S. Turner', with a long horizontal line extending to the right.

Stephen Turner

Sydney
26 February 2014

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 2013, 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
26 February 2014

INTERIM CONSOLIDATED INCOME STATEMENT
for the half-year ended 31 December 2013

	Note	31 Dec 2013 \$'000	31 Dec 2012 \$'000
From continuing operations			
Sales revenue	4	10,920	9,218
Cost of goods sold		(8,534)	(5,297)
Gross profit		2,386	3,921
Other Income / (Expenses)			
Finance income		1	71
Other income		51	10
Foreign exchange loss		(317)	-
Administrative and other expenses	5	(1,968)	(2,147)
Share-based payment expense		(267)	(7)
Finance costs		(460)	(139)
(Loss) / profit before tax		(574)	1,708
Income tax expense		(482)	(369)
(Loss) / profit after tax for the period attributable to members of the parent entity		(1,056)	1,339
Earnings per share (cent per share)			
– Basic (loss) / earnings per share	6	(0.26)	0.33
– Diluted (loss) / earnings per share		(0.26)	0.28

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the half-year ended 31 December 2013

	31 Dec 2013 \$'000	31 Dec 2012 \$'000
Profit / (loss) after tax for the period attributable to members of the parent entity	(1,056)	1,339
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	(667)	(103)
Other Comprehensive Expense	(667)	(103)
Total comprehensive (loss) / profit for the period, net of tax	(1,723)	1,236
Attributable to:		
Members of the parent entity	(1,723)	1,236

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2013

	Note	31 Dec 2013 \$'000	30 June 2013 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	7	5,100	411
Trade and other receivables		4,612	1,254
Prepayments		72	217
Inventories	8	7,200	3,941
Total current assets		16,984	5,823
Non-current assets			
Exploration and evaluation assets	9	6,730	4,300
Mining properties	10	7,428	7,628
Property, plant & equipment	11	18,091	13,384
Deferred tax asset		255	261
Other non-current assets		980	834
Total non-current assets		33,484	26,407
Total assets		50,468	32,230
LIABILITIES			
Current liabilities			
Trade and other payables		6,279	2,969
Vendor Financing	12	2,153	-
Taxation owing		495	657
Interest-bearing loans and borrowings		-	271
Provisions	13	481	995
Total current liabilities		9,408	4,892
Non-current liabilities			
Interest-bearing loans and borrowings	14	15,896	-
Provisions	13	3,503	4,943
Total non-current liabilities		19,399	4,943
Total liabilities		28,807	9,835
Net assets		21,661	22,395
SHAREHOLDERS' EQUITY			
Contributed equity		48,312	48,312
Share-based payment reserve	16	2,539	1,550
Foreign currency translation reserve		(5,555)	(4,888)
Accumulated losses		(23,635)	(22,579)
Total shareholders' equity		21,661	22,395

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half-year ended 31 December 2013

	Contributed Equity	Share Based payment reserve	Foreign currency translation reserve	Accumu- lated losses	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2012	48,312	1,378	(5,597)	(24,261)	19,832
Profit for the period	-	-	-	1,339	1,339
Other comprehensive expense	-	-	(103)	-	(103)
Total comprehensive profit for the period	-	-	(103)	1,339	1,236
Equity transactions with owners					
Share options expensed	-	7	-	-	7
At 31 December 2012	48,312	1,385	(5,700)	(22,922)	21,075
At 1 July 2013	48,312	1,550	(4,888)	(22,579)	22,395
Loss for the period	-	-	-	(1,056)	(1,056)
Other comprehensive income	-	-	(667)	-	(667)
Total comprehensive loss for the period	-	-	(667)	(1,056)	(1,723)
Equity transactions with owners					
Warrants issued	-	722	-	-	722
Share options expensed	-	267	-	-	267
At 31 December 2013	48,312	2,539	(5,555)	(23,635)	21,661

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
for the half-year ended 31 December 2013

	Note	31 Dec 2013 \$'000	31 Dec 2012 \$'000
Cash flows from operating activities			
Receipts from customers		7,516	7,730
Payments and advances to suppliers and employees (exclusive of GST and other Brazilian taxes payable)		(10,112)	(7,439)
Taxation and other social taxes paid		(146)	(351)
Payments for restricted cash		(145)	(157)
Interest paid		(16)	(3)
Net cash flows utilised in operating activities		(2,903)	(220)
Cash flows from investing activities			
Interest received		1	71
Payments for property, plant & equipment		(5,173)	(3,199)
Payments for exploration and evaluation assets		(2,479)	(1,014)
Net cash flows utilised in investing activities		(7,651)	(4,142)
Cash flows from financing activities			
Proceeds from borrowings		16,226	450
Payment of Finance Costs		(438)	-
Repayments of borrowings		-	(8)
Net cash flows from financing activities		15,788	442
Net increase / (decrease) in cash held		5,234	(3,920)
Cash at the beginning of the financial period		411	5,403
Effects of exchange rates on cash holdings in foreign currencies		(545)	(7)
Cash and cash equivalents at the end of the period		5,100	1,476

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 2013. The presentation currency of the Group is Australian Dollars (“\$”).

SAFM is a company limited by shares incorporated in Australia whose shares and some 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 2013.

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 2013 and up to the issue date of this report, in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

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

The accounting policies adopted are consistent with those of previous financial year and corresponding interim reporting period. The presentation of financial information may also differ to the previous financial report to facilitate comparability of current year financial information.

The Interim Financial Statements have been approved and authorised for issue by the Board of Directors on 27 February 2014.

(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)

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2013:

- AASB 10 Consolidated Financial Statements – New control model that applies to all entities
- AASB 13 Fair value measurement – Single source of guidance for determining the fair value of assets and liabilities
- AASB 119 Employee Benefits
- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle
- AASB CF 2013-1 Amendments to the Australian Conceptual Framework

The adoption of these amendments did not have any impact on the financial position or the performance of the Group. Other new and amended standards and interpretations are not applicable.

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

(d) Estimates

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

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 2013.

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 2013	31 Dec 2012
	\$'000	\$'000
Sales revenue	10,920	9,218

5. ADMINISTRATIVE AND OTHER EXPENSES

	31 Dec 2013	31 Dec 2012
	\$'000	\$'000
Accounting fees	154	118
Auditors' remuneration	46	18
Consulting fees	34	51
Depreciation of office equipment	10	2
Employment costs	721	888
Rent	162	104
Legal fees	27	93
Travel and accommodation	49	533
Write off of bad debts	6	-
Other administrative expenses	759	340
	1,968	2,147

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 2013	31 Dec 2012
Basic (loss)/earnings per share (cents per share)	(0.26)	0.33
Diluted (loss)/earnings per share (cents per share)	(0.26)	0.28
Net (loss)/profit attributable to ordinary shareholders (\$'000)	(1,056)	1,339
	Shares '000	Shares '000
Weighted average number of ordinary shares used in the calculation of basic earnings.	409,148	409,148
Weighted average number of ordinary shares used in the calculation of diluted earnings	409,148	478,579
Total number of ordinary shares on issue.	409,148	409,148

7. CASH

	31 Dec 2013	30 June 2013
	\$'000	\$'000
Cash at Bank (a)	5,100	411

(a) In accordance with debt covenant agreement with Deutsche Bank for its loan, SAFM is required to maintain a minimum cash balance of USD\$2.4 million (\$2.7 million) at 31 December 2013 and thereafter USD1.5 million.

8. INVENTORIES

	31 Dec 2013	30 June 2013
	\$'000	\$'000
Raw Material (a)	716	590
Concentrator Feed (b)	2,352	306
Consumable Stock (c)	755	666
Finished Goods (d)	3,377	2,379
	7,200	3,941

(a) Raw Material is valued at cost at 30 June and 31 December 2013.

(b) Concentrator Feed is valued at net realisable value at 30 June and at cost at 31 December 2013.

(c) Consumable Stock is valued at cost at 30 June and 31 December 2013.

(d) Finished Stock is valued at net realisable value at 30 June and at cost at 31 December 2013.

During FY2013 \$458,108 was recognised as an expense for inventories carried at net realisable value. This was recognised in cost of sales.

9. EXPLORATION AND EVALUATION ASSETS

	31 Dec 2013	30 June 2013
	\$'000	\$'000
Opening Balance	4,300	2,617
Exploration expenditure capitalised		
– Exploration and evaluation phases	2,478	999
– Resource drilling program	-	611
Less:		
– Amortisation	(14)	(14)
– Foreign exchange movement	(34)	87
	6,730	4,300

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.

10. MINING PROPERTIES

31 Dec 2013	Cost \$'000	Accumulated Amortisation \$'000	Carrying Value \$'000
Mineral rights	7,661	(233)	7,428

31 Dec 2013	Opening Balance 1 July 2013 \$'000	Foreign Exchange Movement \$'000	Additions \$'000	Depreciation \$'000	Carrying Value 31 Dec 2013 \$'000
Mineral rights	7,628	(166)	-	(34)	7,428

30 June 2013	Cost \$'000	Accumulated Amortisation \$'000	Carrying Value \$'000
Mineral rights	7,831	(203)	7,628

30 June 2013	Opening Balance 1 Jul 2012 \$'000	Foreign Exchange Movement \$'000	Additions \$'000	Reversal \$'000	Amortisation \$'000	Carrying Value 30 Jun 2013 \$'000
Surface rights (a)	2,317	-	-	(2,317)	-	-
Mineral rights	7,448	248	-	-	(68)	7,628
	9,765	248	-	(2,317)	(68)	7,628

(a) Refer to Note 19 - Contingent Assets and Liabilities.

11. PROPERTY, PLANT & EQUIPMENT

31 December 2013	Cost \$'000	Accumulated Depreciation \$'000	Carrying Value \$'000
Decommissioning asset	2,381	(63)	2,318
Land	5,433	-	5,433
Beneficiation plant	1,529	(163)	1,366
Concentrator I plant	3,527	(484)	3,043
Concentrator II plant	4,733	(254)	4,479
Furniture & fittings	180	(35)	145
Computer hardware	115	(39)	76
Motor vehicles	135	(71)	64
Machinery and equipment	424	(60)	364
Software	76	(20)	56
Buildings	137	(16)	121
Laboratory	530	(50)	480
Mechanical tools	36	-	36
Work in progress	110	-	110
	19,346	(1,255)	18,091

11. PROPERTY, PLANT & EQUIPMENT (continued)

31 December 2013	Opening Balance 1 July 2013 \$'000	Foreign Exchange Movement \$'000	Additions \$'000	Disposals \$'000	Depre- ciation \$'000	Carrying Value 31 Dec 2013 \$'000
Decommissioning asset (a)	4,261	(103)	-	(1,821)	(19)	2,318
Land	-	29	5,404	-	-	5,433
Beneficiation plant	672	(10)	754	-	(50)	1,366
Concentrator I plant	2,877	(62)	388	-	(160)	3,043
Concentrator II plant	4,297	(91)	491	-	(218)	4,479
Furniture and fittings	135	(1)	20	-	(9)	145
Computer hardware	61	(1)	28	(1)	(11)	76
Motor vehicles	80	(3)	-	-	(13)	64
Machinery and equipment	324	(7)	67	-	(20)	364
Software	64	(2)	1	-	(7)	56
Buildings	90	(2)	39	-	(6)	121
Laboratory	495	(10)	21	-	(26)	480
Mechanical tools	-	1	35	-	-	36
Work in progress	28	-	82	-	-	110
	13,384	(262)	7,330	(1,822)	(539)	18,091

(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 31 December 2013, 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 5.77% per annum (30 June 2013: 6.5%). These estimates are then discounted to a present value, using a pre-tax discount of 9.9% per annum (30 June 2013: 7.9%). These changes in the assumptions during the period have resulted in a decrease of the asset and liability of \$1.8 million. The decommissioning and restoration assets are amortised based on the current level of production at the mine over its estimated production life.

30 June 2013	Cost \$'000	Accumulated depreciation \$'000	Carrying Value \$'000
Decommissioning asset	4,306	(45)	4,261
Plant	8,327	(481)	7,846
Furniture & Fittings	162	(27)	135
Computer Hardware	91	(31)	60
Motor Vehicles - at cost	138	(58)	80
Machinery and Equipment	365	(40)	325
Software	77	(13)	64
Buildings	101	(11)	90
Laboratory	520	(25)	495
Work-in-progress	28	-	28
	14,115	(731)	13,384

11. PROPERTY, PLANT & EQUIPMENT (continued)

30 June 2013	Opening Balance 1 Jul 2013 \$'000	Foreign Exchange Movement \$'000	Additions \$'000	Adjust- ment \$'000	Disposals \$'000	Depre- ciation \$'000	Carrying Value 30 Jun 2013 \$'000
Decommissioning asset	1,529	113	-	2,634	-	(15)	4,261
Plant	2,922	210	5,121	-	-	(407)	7,846
Furniture & Fittings	120	4	25	-	-	(14)	135
Computer Hardware	28	1	45	-	(2)	(12)	60
Motor Vehicles	109	3	-	-	(16)	(16)	80
Machinery and Equip	113	9	224	-	-	(21)	325
Software	7	2	62	-	-	(7)	64
Buildings	40	1	54	-	-	(5)	90
Laboratory	-	11	508	-	-	(24)	495
Work-in-progress	78	1	-	-	(51)	-	28
	4,946	355	6,039	2,634	(69)	(521)	13,384

12. VENDOR FINANCING

	31 Dec 2013 \$'000	30 June 2013 \$'000
Vendor Financing	2,153	-

On 30 September 2013, SAFM acquired a 100 hectare property to the south of its Ponto Verde Mine which will be used for future tailings and waste disposal in its expansion project. The total purchase consideration amounted to R\$11 million (A\$5.4 million) which was settled by two payments totalling R\$6.5 million (A\$3.2 million) before 31 December 2013 and the balance of \$R4.5 million (A\$2.2 million) was paid on 3 January 2014, refer to Note 18 – Events after the end of the reporting period.

13. PROVISIONS

	31 Dec 2013 \$'000	30 June 2013 \$'000
Current provisions		
Employee benefits	376	502
Tax Provision	3	356
Other provisions	102	137
	481	995
Non-current provisions		
Rehabilitation provision	2,763	4,524
Royalty payment provision	537	419
Other Provisions	203	-
	3,503	4,943

14. INTEREST-BEARING LOANS AND BORROWINGS

	31 Dec 2013 \$'000	30 June 2013 \$'000
Bank loan (a)	16,903	-
Debt establishment cost and accrued Interest (a)	(1,007)	-
	15,896	-

(a) On 25 July 2013, the Company secured a US\$15 million two year loan facility with Deutsche Bank. The terms and conditions of this loan include:

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

As part of this facility, SAFM has issued Deutsche Bank 20.4 million, 5 year warrants representing 5% of its issued share capital at an exercise price of 7.3 cents per share.

15. FAIR VALUE MEASUREMENT

The carrying amounts and fair values of interest bearing liabilities at balance date are:

	31 December 2013		30 June 2013	
	Carrying Amount \$'000	Fair Value \$'000	Carrying Amount \$'000	Fair Value \$'000
On Balance Sheet				
<i>Non traded financial liabilities</i>				
Bank loan	15,896	15,896	-	-

16. SHARE BASED PAYMENT RESERVE

	31 Dec 2013 \$'000	30 June 2013 \$'000
Opening balance	1,550	1,378
Share-based payment expense (a)	267	172
Warrants issued as part of loan facility (refer to note 14)	722	-
Closing balance	2,539	1,550

(a) During the period under review, the following options were issued:

- i. 4,000,000 Options to subscribe for the equivalent number of fully paid ordinary Shares in the Company issued to Key Management Personnel of 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:

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

- ii. 22,500,000 Options to subscribe for the equivalent number of fully paid ordinary Shares in the Company issued to Directors of the Company as approved by shareholders.

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:

- one third of the options will vest if employed by the Company on 31 December 2014;
- one third of the options will vest if employed by the Company on 31 December 2015; and
- one third of the options will vest if employed by the Company on 31 December 2016.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the half-year ended 31 December 2013

The vested Options are automatically exercisable if 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 equal to or greater than \$0.50 per share.

17. 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 2013	30 June 2013	31 Dec 2013 \$'000	30 June 2013 \$'000
South American Ferro Metals Limited	British Virgin Islands	100%	100%	8,517	8,517
SAFM Mineracao LTDA	Brazil	100%	100%	29,031	19,153

Directors

The Directors' remuneration for the six month ended 31 December 2013 amounted to \$587,193 (2012: \$520,103).

During the period, SAFM issued Share Options to Directors and Key Management Personnel, refer to Note 16 – Share Based Payment Reserve.

18. CAPITAL COMMITMENTS

The capital commitments at 31 December 2013 are as follows:

SAFM Brazil

	31 Dec 2013 \$'000	30 June 2013 \$'000
Contracted for	2,373	431
Authorised but not contracted for	3,866	-
	6,239	431

19. CONTINGENT ASSETS AND LIABILITIES

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

At this time a liability was recognised for the Surface Rights Instalment, and a corresponding asset, on the basis that it was believed that the transfer of the surface rights would be executed imminently and SAFM had the right of use and enjoyment of the surface rights. However his name did not appear on the property register (n^o 8797 of 16 December of 1991) and this payment was not effected. The vendor is currently following a judicial process through the Brazilian Courts to ascertain the legal owner of these rights. SAFM is not a party to this process.

Under Brazilian law, SAFM has full surface right access to the property, being the holder of the Mineral rights. However, it is the Company's view that no liability exists for the Surface Rights Instalment until the owner of the surface rights has been established and title is transferred to SAFM. As such, the surface rights asset and liability have been reversed in FY2013.

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

20. EVENTS AFTER THE END OF REPORTING PERIOD

On 3 January 2014, SAFM settled the balance of R\$4.5 million (A\$2.2 million) owing in respect of the property acquisition (refer to Note 12 - Vendor financing).

DIRECTORS' DECLARATION
for the half-year ended 31 December 2013

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 2013, as set out on pages 9 to 21, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 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
26 February 2014

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 2013, 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.

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 2013 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.

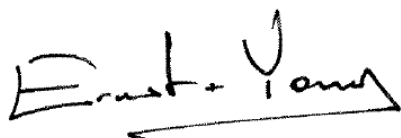
Independence

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 2013 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*.



Ernst & Young



Anton Ivanyi
Partner
Sydney
26 February 2014