



# Annual Report

for the year ended

30 June 2014

# **SOUTH AMERICAN IRON & STEEL CORPORATION LIMITED**

A.B.N.: 67 060 319 119

## **and Controlled Entities**

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## **SOUTH AMERICAN IRON & STEEL CORPORATION LIMITED**

A.B.N.: 67 060 319 119

### **and Controlled Entities**

## **1. DIRECTORY**

South American Iron & Steel Corporation  
Limited

ABN 67 060 319 119

Registered office

Suite 4

Level 10

8 – 10 Loftus Street

Sydney NSW 2000

Tel: +612 81881491

Fax: +612 92525638

Directors

Terry Cuthbertson, Chairman

Kenneth Lee, CEO

Dr Richard Haren, Non-Executive Director

Dr Simon Ning, Non-Executive Director

Mr William Ji, Non-Executive Director

Company Secretary

Kenneth Lee

South American Iron & Steel Website:

[www.saironsteel.com](http://www.saironsteel.com)

### **Share Registry**

Link Market Services Limited

*All Registry communications to:*

Link Market Services Limited

Locked Bag A14 Sydney

South NSW 1235 Australia

Telephone: 02 8280 7454

Facsimile: +61 2 9287 0303

Email: [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)

Website: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

### **Auditor**

Nexia Court & Co

Chartered Accountants

Level 16, 1 Market Street

Sydney NSW 2000

## **SOUTH AMERICAN IRON & STEEL CORPORATION LIMITED**

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### **and Controlled Entities**

## **2. DIRECTORS' REPORT**

The Directors present their report together with the financial report of South American Iron & Steel Corporation Limited (“the Company”) and the consolidated financial report of the Group, being the Company and its controlled entities, for the year ended 30 June 2014 and the auditors’ report thereon.

### **2.1 Directors**

The Directors of the Company at any time during or since the financial year are:

	<b>Period as Director</b>
Terry Cuthbertson (Chairman)	18 May 2009 to present
Kenneth Lee (CEO, Co. Sec)	24 March 2009 to present
Dr Richard Haren (Director)	13 May 2009 to present
Dr Haomin Simon Ning (Director)	4 April 2011 to present
William Ji (Director)	27 September 2012 to present

Details of the above Directors follow:

#### **Terry Cuthbertson, Chairman, Independent Non-Executive Director**

Mr. Cuthbertson holds a Bachelor of Business Degree and is a member of the Australian Institute of Chartered Accountants.

He is a former Partner of the Audit and Corporate Finance Divisions of KPMG Chartered Accountants and former NSW Partner in Charge of Mergers and Acquisitions, where he coordinated government privatisations, mergers, acquisitions, divestitures and public offerings on the Australian Stock Exchange for the New South Wales practice.

Mr. Cuthbertson is the former Group Finance Director of Tech Pacific Holdings Pty Limited, which in 1999 had a turnover of \$AU2 billion and was a Director for Tech Pacific Holdings Pty Limited's businesses in China, Hong Kong, Singapore, India, Philippines, Indonesia and Thailand. Mr. Cuthbertson is Chairman of Montec International Limited, Chairman of Auspac Resources NL, Chairman of MyNetFone Limited, Chairman of Malachite Resources Limited, Non-executive Director of Mint Wireless Limited, and Non-executive Director of Isentric Limited.

#### **Kenneth Lee, CEO, Company Secretary, Executive Director**

Mr Kenneth Lee was appointed to the position of Company Secretary on 20 February 2008 and a Director on 24 March 2009. Kenneth Lee is a member of the Institute of Chartered Accountants in England & Wales and has a Masters degree in Business Administration. He was a Director of KPMG Corporate Finance, Sydney. Kenneth was Company Secretary to Berren Limited and manager of the International Wine Fund (formerly Australian Wine & Investment Fund), a listed fund with more than \$200 million under management.

#### **Dr Richard Haren, Independent Non-Executive Director**

Dr Haren has over twenty five years project management experience involving numerous industries including all facets of minerals/hydrocarbon exploration and mining/production. Dr Haren has consulted to a variety of public and private companies in Australia, Asia, Africa, the C.I.S, North and South America involving exploration and mining. Dr Haren was awarded a First Class Honours Degree and University Medal in Physics and a PhD in Exploration

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Geophysics from the University of New South Wales, his PhD focussed on the electromagnetic response of the Woodlawn & Elura base metals deposits in NSW.

Dr Haren was a Project Manager for over two years in the mid-1990s with Exploration Geoscience (BMR) in Canberra in charge of the Broken Hill Exploration Initiative, a National Geoscience Mapping Accord project with a budget in excess of \$2.5 million per annum. He has been invited onto the Boards of several publicly listed Companies including Mount Grace NL, Hillcrest Resources NL, Molopo Australia NL (CBM producer), China Yunnan Copper Australia Limited and Triton Corporation Limited.

From the mid-nineties to 2002 he consulted to a national broking firm Tolhurst Noall Ltd working on capital raising and analysis of high tech, biotech and IT companies. He is also the Director of a number of unlisted public companies and private companies that are involved in gold and base metal exploration in Australia and Africa.

Dr Haren is a corporate member of the Australasian Institute of Mining and Metallurgy, the Society of Exploration Geophysicists and the Australian Society of Exploration Geophysicists.

#### **Dr Haomin Simon Ning, Independent Non-Executive Director**

Dr. Ning is a young entrepreneur with international experience. He gained his management experience in hydro-power engineering (Zublin AG.), civil engineering, electronics and semiconductor (SIEMENS) industries before he moved into the management consulting industry (Balanced Scorecard Collaborative).

Whilst gaining his PhD. in Management and Marketing in the UK, he started his own business helping a number of Chinese companies penetrating into the EU market. Dr. Ning is currently the Managing Director of an investment company and a construction group company based in China.

#### **Mr William Ji, Independent Non-Executive Director**

Mr Ji has wide ranging experience in management, finance, mining and project management. He has been in senior positions with CITIC Group since November 2006, to begin with, as a Director (of which he presently remains in that position) of CITIC International Tendering Co., Ltd. Mr Ji is also the Chairman of Jiangxi CITIC Mining Investment Co., Ltd. (since August 2008) and Chairman of CITIC Project Management (Beijing) Co., Ltd. (since February 2012).

The above companies are subsidiaries of CITIC Limited, a large state-owned multinational conglomerate (total assets of RMB 2,539 billion, approximately AUD \$391 billion, at the end of 2010) with both financial and non-financial businesses. Its financial business covers a full range of services including commercial banking, investment banking, trust, insurance, fund management and asset management and its non-financial business includes real estate, engineering contracting, energy and resources, infrastructure construction, machinery manufacturing and IT industry.

Mr Ji holds an MBA degree from Singapore International Management Academy & James Cook University, Singapore. In addition, Mr Ji is a member of the Professional Golf Teacher Academy, USA.

## **2.2 Company Secretary**

Mr Kenneth Lee was appointed to the position of Company Secretary on 20 February 2008.

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#### **2.3 Principal Activities**

The principal activity of the Group during the course of the financial year was mineral exploration for iron sands in South America, with an emphasis on Chile.

#### **2.4 Operating and Financial Review**

The net loss of the Group for the year ended 30 June 2014 after income tax was **\$9,783,011** (2013: \$2,347,838).

During the financial year, entities in the Group pursued investments and activities in mining exploration in South America. An overview of the operations of the Group is set out below.

#### **2.5 Dividends**

The Directors do not recommend the payment of a dividend. No dividends were previously declared or paid since the end of the previous financial year.

#### **2.6 Review of Operations**

The Company is determined to rebuild shareholder confidence and value. To this end the Company has appointed advisers to assist in the identification of new business opportunities and the sourcing of additional funding for working capital.

Given the current market difficulties the junior mining sector is experiencing, the Board believes that it needs to assess a range of new opportunities, which may well include opportunities beyond the Company's traditional resource sector.

In addition to reviewing new opportunities, the Company has instigated a number of cost cutting measures aimed at minimising cash outflows through this transitional phase.

Exploration activities in Chile have been curtailed, while operational and administrative overheads have been reviewed and reduced.

The Company, like many other junior exploration companies, has recently experienced difficulty in maintaining investor support and raising further funds to advance its operations, notwithstanding positive operational and technical results in South America.

Attempts to refine business strategy through a greater focus on iron sands exploration in Chile, proposed strategic alliances and the disposal of certain Chilean assets, have to date not come to fruition in view of significant falls in the iron ore price and has materially affected the marketability of SAIS iron sands.

Consequently, management reviewed the potential and recoverable amount of the mining concessions held in Aguas Claras, in Maullin and in Putú and management determined not to renew those concessions in Aguas Claras, Maullin and Putú. Accordingly, an impairment was recognised during the period of \$9,091,433.

The recent actions of the Board should give shareholders reassurance that it is determined to preserve capital and rebuild shareholder value, and implement the necessary steps to do so.

## **SOUTH AMERICAN IRON & STEEL CORPORATION LIMITED**

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## **Exploration**

During the year, the Company:

- Has completed installation of equipment in Putú for trial production. Production paused due to Route 5 road maintenance. We initially planned inland trucking of our product using Route 5 and would now have to use an alternative countryside route, which makes transportation cost very high. Production paused to avoid product storage costs.
- Continued negotiations with the Ecuadorian Government to regain interests in iron sands projects, previously owned by the Company.
- Has also signed a letter of intention with Beijing Shenwu Environment & Energy Technology Co., Ltd ("Shenwu") with a view to jointly develop iron sands projects in Ecuador and in Chile. Shenwu has the technical know-how to process iron sands especially those with high titanium content into saleable products.
- Commenced discussions with the Ecuadorian Government and two large Chinese mining houses. These discussions are focused on specific advanced exploration and mining projects in Ecuador. If successful the results of negotiation will involve the incorporation of a Joint Venture which will include the Ecuadorian Government, one or two major mining companies and the Company. The exploration and mining projects under discussion are large scale and advanced, so the Company is working diligently to evolve a positive outcome to add value to shareholders.

### **Aguas Claras Project (Iron sands, Chile)**

The Company has not performed any exploration at Aguas Claras during the year. During the year, the Company has been negotiating with potential buyers of the Company's land located at Aguas Claras and the sale has not yet come to fruition. The estimated price range under discussion is between US \$200,000 and US \$400,000.

### **Quince Project**

The Company currently owns a 10% interest in the Quince concessions. During the year, the Company received its share of 10% from a potential buyer who paid an option fee to acquire 100% of the Quince concessions.

Under the Purchase Option Agreement, if the buyer had a continuing interest to acquire the Quince concession, the buyer had to pay a further US \$1,250,000 to the vendors (of which the Company had received US \$125,000 being 10% interest in the concession for the past three years before Chilean tax and related fees,) on or before 31 January 2014. The Company has received this option payment in February this year. In the event that the buyer wishes to buy the Quince concessions, an amount of US \$8,750,000 is payable by the buyer on or before 31 January 2015 (of which the Company will receive US \$875,000 before Chilean tax and related fees and expenses).

## **Corporate**

Your Directors have confirmed that their directors fees owed by the Company will not be due for payment before 15<sup>th</sup> December 2015, unless, shareholders approve the issue of the Company's shares in lieu of the amounts owed before that date. Fees owed to the Directors as at 30<sup>th</sup> June 2014 was \$519,608; some of which have been outstanding for more than two years.

A Director has also advanced \$37,000 to the Company during the year and will also not be repayable before 15<sup>th</sup> December 2015; unless the advance is converted to a loan note.

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## **2.7 Changes in the State of Affairs**

Other than those items referred to above, and referred to in this report, the financial statements and the accompanying notes there were no significant changes in the state of affairs of the Consolidated Entity during the financial year.

## **2.8 Events Subsequent to Balance Date**

In the interval between the end of the financial year and the date of this report there has been no item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

In the interval between the end of the financial year and the date of this report the Company issued the following loan notes:

<b>Date of Issue</b>	<b>Amount</b>	<b>Terms</b>
20 <sup>th</sup> August 2014	\$30,000	12% per annum to 20 <sup>th</sup> November 2014 and extendable to 20 <sup>th</sup> December 2015.
26 <sup>th</sup> September 2014	\$20,000	12% per annum to 20 <sup>th</sup> November 2014 and extendable to 20 <sup>th</sup> December 2015.
29 <sup>th</sup> September 2014	\$50,000	12% per annum to 20 <sup>th</sup> November 2014 and extendable to 20 <sup>th</sup> December 2015.

On 24<sup>th</sup> September 2014, the Company has successfully renegotiated the terms and conditions of an existing \$400,000 non-interest bearing loan which was not repayable until on demand by the Note holder after 15 December 2013 to until on demand by the Note holder after 15 December 2015.

## **2.9 Likely Developments**

As stated in 2.6 above, Review of Operations, the Board believes that it needs to assess a range of new opportunities, which may well include opportunities beyond the Company's traditional resource sector.

The Company, like many other junior exploration companies, has recently experienced difficulty in maintaining investor support and raising further funds to advance its operations, notwithstanding positive operational and technical results in South America. In addition, the significant falls in iron ore prices have currently affected the economic viability of the Company's iron sands assets and its production.

The Group has therefore curtailed its exploration activities in Chile while operational and administrative overheads have been reviewed and reduced.

The Group expects to dispose of its land in the Aguas Claras area as well as its holding of 10% of the Quince concession. The land is expected to sell between US \$200,000 and US \$400,000.

There is an existing purchase option on the Quince concession for US \$12.5 million. Under the terms of the option, the buyer has to pay an equivalent of 10% of the purchase price by 31<sup>st</sup> January of each year (from 31<sup>st</sup> January 2012) to renew the option.

On or before 31<sup>st</sup> January 2015, the buyer will either exercise the option or lapse the option. In the event that the buyer exercises the option, the buyer will have to pay the purchase price (US \$12.5 million) less amounts of option payments (3 payments of US \$1.25 million) made

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from 31<sup>st</sup> January 2012; that is US \$8.75 million. At the date of this report, the Company has been informed that the buyer is very likely to exercise the option on or before 31<sup>st</sup> January 2015. If this occurs, the Company is expected to receive approximate net proceeds (after Chilean tax and related fees and expenses) of US \$650,000.

To facilitate in identifying new business opportunities and the sourcing of additional funding for working capital, the Company has appointed advisers.

The recent actions of the Board should give shareholders reassurance that it is determined to preserve capital and rebuild shareholder value, and implement the necessary steps to do so.

### **2.10 Environmental Regulations**

The Group's operations are not subject to any significant environmental regulations under Australian Law. The consolidated Group is not subject to significant environmental regulations in South America to which it is fully compliant and the Group plans to perform activities so that adverse effects on the environment are avoided or kept to a minimum.

### **2.11 Directors Meetings**

The number of Directors' meetings and number of meetings attended by each of the Directors of the Company during the financial year are:

<b>Director</b>	<b>Board Meetings</b>		<b>Audit Committee Meetings</b>	
	<b>A</b>	<b>B</b>	<b>A</b>	<b>B</b>
Terry Cuthbertson	6	6	2	2
Kenneth Lee	6	6	2	2
Richard Haren	6	6	2	2
Simon Ning	6	6	-	-
William Ji	6	6	-	-

A – Number of meetings attended

B – Number of meetings held during the time the Director held office during the year.

### **2.12 Remuneration Report – Audited**

The remuneration report, which has been audited, outlines the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The remuneration report is set out under the following main headings:

- (i) Principles used to determine the nature and amount of remuneration
- (ii) Details of remuneration
- (iii) Service agreements
- (iv) Share based compensation
- (v) Additional information
- (vi) Additional disclosures relating to key management personnel

#### **(i) Principles used to determine the nature and amount of remuneration**

The Group's policy for determining the nature and amount of emoluments of board members and senior executives of the consolidated entity is as follows:

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The objective of the entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation;
- Transparency; and
- capital management.

The Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- attracts and retains well qualified and suitably experienced applicants;
- has the goal of economic profit as a core component of plan design;
- focuses on sustained growth in shareholder wealth, consisting of growth in share price, and, in the longer term, payment of dividends and delivering an adequate return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth;
- provides a clear structure for earning rewards; and
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short (STI) and long-term (LTI) incentives. As executives gain seniority with the Group, the balance of this mix shifts to a higher proportion of "at risk" rewards.

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current year. Recognition is given to earnings in setting executive remuneration but, as the Group is involved in mineral exploration rather than mineral mining and production, relevant experience, industry standards and the annual exploration outcomes, rather than earnings, are given greatest weight in remuneration considerations.

### ***Non-executive directors***

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board has also drawn on external sources of information to ensure non-executive directors' fees and payments are appropriate and in line with the market.

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#### ***Executive directors***

The consolidated entity aims to reward executives with a level and mix of remuneration based on their position and responsibility, which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration such as superannuation and long service leave .

The combination of these comprises an executive's total remuneration.

#### **(ii) Details of remuneration**

Cash remuneration packages are set at levels that are intended to attract and retain executives capable of managing and enhancing the consolidated entity's operations. Remuneration of individual non-executive Directors is determined by the Board and may be varied from time to time.

#### ***Amounts of remuneration***

Details of the remuneration of the key management personnel of the consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity consists of the following directors:

Mr T Cuthbertson – Non-executive Chairman  
Mr K Lee – Managing Director and Chief Executive Officer  
Dr R Haren – Non-executive Director  
Dr S Ning – Non-executive Director  
Mr W Ji – Non-executive Director

#### ***Remuneration of non-executive Directors fees***

<b>Directors</b>	<b>Directors fees</b>
Mr T Cuthbertson	\$60,000
Dr R Haren	\$60,000
Dr S Ning	\$15,000
Mr W Ji	\$Nil

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**2.12 Remuneration Report – Audited (continued)**

**For the year ended 30 June 2014**

	Short-term employee benefits	Post employment benefits	Share-based payment	Other long-term benefits	Total compensation	Value of options as proportion of remuneration
Cash						
	Salary and fees	Super	Options			
	\$	\$	\$	\$	\$	%
<b>Director</b>						
T Cuthbertson	60,000	-	-	-	60,000	0.00
K Lee	180,000	16,650	-	(26,092)	170,558	0.00
R Haren	60,000	-	-	-	60,000	0.00
S Ning	15,000	-	-	-	15,000	0.00
W Ji	-	-	-	-	-	0.00
	315,000	16,650	-	(26,092)	305,558	0.00

**For the year ended 30 June 2013**

	Short-term employee benefits	Post employment benefits	Share-based payment	Other long-term benefits	Total compensation	Value of options as proportion of remuneration
Cash						
	Salary and fees	Super	Options			
	\$	\$	\$	\$	\$	%
<b>Director</b>						
T Cuthbertson	60,000	-	-	-	60,000	0.00
K Lee	192,831	16,200	-	3,268	212,299	0.00
R Haren	60,000	-	-	-	60,000	0.00
S Ning	-	-	-	-	-	0.00
W Ji	-	-	55,382	-	55,382	100.00
	312,831	16,200	55,382	3,268	387,681	14.28

Key management personnel are the same for the Group and the Company. All key management personnel are shown above.

There is no link between key management personnel remuneration and the share price or dividends.

There is no relationship between the performance of the Group and remuneration over the past five years.

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#### (iii) Service agreement

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of applicable service agreements are set out as follows:

**Name:** Kenneth Lee

**Title:** Managing Director and Chief Executive Officer

**Details:** The employment conditions of the Managing Director, Kenneth Lee, is formalised in a contract of employment. The employment contract stipulates a 12 month resignation notice period. The Group may terminate an employment contract without cause by providing 12 months written notice or making payment in lieu of notice together with any applicable redundancy payment. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Group can terminate employment at any time. Any options not exercised before or on the date of termination will lapse.

#### (iv) Share based compensation

##### Issue of shares

Details of shares held by directors and other key management personnel during the year ended 30 June 2014 are set out below. No shares were issued as part of the key management personnel remuneration.

##### Shares

Ordinary Shares	Held at 1 July 2013	Movements	Held at 30 June 2014
<b>Directors</b>			
R Haren	183,703	-	183,703
K Lee <sup>1</sup>	2,227,698	-	2,227,698
T Cuthbertson	198,307	-	198,307
S Ning	-	-	-
W Ji	-	-	-

Ordinary Shares	Held at 1 July 2012	Movements	Held at 30 June 2013
<b>Directors</b>			
R Haren	183,653	50	183,703
K Lee <sup>1</sup>	666,807	1,560,891	2,227,698
T Cuthbertson	198,307	-	198,307
S Ning	-	-	-
W Ji	-	-	-

<sup>1</sup> These shares includes 300,000 shares acquired under the Company's employee share purchase plan, prior to K Lee's appointment as a Director, and held by Aconcagua SPP Nominees Pty Limited, a nominee company as security for a non recourse loan.

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#### ***Share based payments***

The following share based payment arrangements, all of which would be settled for shares, existed at 30 June 2014:

- On 6 July 2010, pursuant to shareholders approval at a general meeting, 6,666,666 options were granted to Directors as part of the Company's incentive scheme at an exercise price of \$0.10. All options vested upon granting and can be exercised from 6 July 2011 until 5 July 2015. The options hold no voting or dividend rights and are non-transferable. At reporting date no options have been exercised.
- On 6 July 2010, pursuant to shareholders approval at a general meeting, 6,666,667 options were granted to Directors as part of the Company's incentive scheme at an exercise price of \$0.15. All options vested upon granting and can be exercised from 6 July 2012 until 5 July 2015. The options hold no voting or dividend rights and are non-transferable. At reporting date no options have been exercised.
- On 6 July 2010, pursuant to shareholders approval at a general meeting, 6,666,667 options were granted to Directors as part of the Company's incentive scheme at an exercise price of \$0.20. All options vested upon granting and can be exercised from 6 July 2013 until 5 July 2015. The options hold no voting or dividend rights and are non-transferable. At reporting date no options have been exercised.
- On 24 September 2010, 650,000 options were granted to employees as part of the Company's incentive scheme at an exercise price of \$0.15. All options vested upon granting and can be exercised from 31 December 2010 until 23 September 2013. The options hold no voting or dividend rights and are non-transferable. At reporting date no options have been exercised.
- On 20 October 2011, 12,000,000 options were granted to employees/consultants as part of the Company's incentive scheme at an exercise price of \$0.12 for 6,000,000 options and \$0.18 for 6,000,000 options. All options vested upon granting and can be exercised from 20 October 2011 until 19 October 2014. The options hold no voting or dividend rights and are non-transferable. At reporting date no options have been exercised.
- On 14 December 2011, pursuant to shareholders approval at a general meeting, 2,000,000 options were granted to a Director as part of the Company's incentive scheme at an exercise price of \$0.20. All options vested upon granting and can be exercised from 15 December 2012 until 14 December 2016. The options hold no voting or dividend rights and are non-transferable. At reporting date no options have been exercised.
- On 14 December 2011, pursuant to shareholders approval at a general meeting, 2,000,000 options were granted to a Director as part of the Company's incentive scheme at an exercise price of \$0.25. All options vested upon granting and can be exercised from 15 December 2013 until 14 December 2016. The options hold no voting or dividend rights and are non-transferable. At reporting date no options have been exercised.
- On 14 December 2011, pursuant to shareholders approval at a general meeting, 2,000,000 options were granted to a Director as part of the Company's incentive scheme at an exercise price of \$0.30. All options vested upon granting and can be exercised from 15 December 2014 until 14 December 2016. The options hold no voting or dividend rights and are non-transferable. At reporting date no options have been exercised.
- On 28 November 2012, pursuant to shareholders approval at a general meeting, 2,000,000 options were granted to a Director as part of the Company's incentive scheme at an exercise price of \$0.10. All options vested upon granting and can be exercised from the date of issue until 5 July 2015. The options hold no voting or dividend rights and are non-transferable. At reporting date no options have been exercised.

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- On 28 November 2012, pursuant to shareholders approval at a general meeting, 2,000,000 options were granted to a Director as part of the Company's incentive scheme at an exercise price of \$0.15. All options vested upon granting and can be exercised from the date of issue until 5 July 2015. The options hold no voting or dividend rights and are non-transferable. At reporting date no options have been exercised.
- On 28 November 2012, pursuant to shareholders approval at a general meeting, 2,000,000 options were granted to a Director as part of the Company's incentive scheme at an exercise price of \$0.20. All options vested upon granting and can be exercised from the date of issue until 5 July 2015. The options hold no voting or dividend rights and are non-transferable. At reporting date no options have been exercised.
- On 31 December 2012, 700,000 options were granted to employees/consultants as part of the Company's incentive scheme at an exercise price of \$0.15. All options vested upon granting and can be exercised from 31 December 2012 until 5 July 2015. The options hold no voting or dividend rights and are non-transferable. At reporting date no options have been exercised.

	2014		2013	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
<b>Parent Entity</b>				
Outstanding at the beginning of the year	45,350,000	0.16	38,650,000	0.17
Granted	-		6,700,000	0.15
Exercised	-		-	
Expired	650,000		-	
Outstanding at year end	44,700,000	0.16	45,350,000	0.16
Exercisable at year end	44,700,000	0.16	45,350,000	0.16

There were nil options exercised during the year ended 30 June 2014. These options had a weighted average share price of \$nil at exercise date. The options outstanding at 30 June 2014 had a weighted average exercise price of \$0.16 and a weighted average remaining contractual life of 1.00 year. Exercise prices range from \$0.10 to \$0.30 in respect of options outstanding at 30 June 2014.

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future trend, which may not eventuate.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

### Options

The movement during the reporting period is the number of options over ordinary shares in South American Iron & Steel Corporation Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Directors	Balance at beginning of year / date of appointment	Granted as compensation	Balance at 30 June 2014	Vested during the year	Vested and exercisable at 30 June 2014
R Haren	6,000,000	-	6,000,000	-	-
K Lee	6,000,000	-	6,000,000	-	-
T Cuthbertson	6,000,000	-	6,000,000	-	-
W Ji	6,000,000	-	6,000,000	-	-

## SOUTH AMERICAN IRON & STEEL CORPORATION LIMITED

A.B.N.: 67 060 319 119

### and Controlled Entities

S Ning	6,000,000	-	6,000,000	-	-
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#### Options (continued)

Remuneration levels are set and determined by the Board of Directors. Remuneration packages are based on fixed remuneration and equity based remuneration. Where key management personnel provide services to the Company other than services related to discharging their Director's responsibilities, they are entitled to charge the Company for the commercial value of such services provided.

Note 2.12 of the Directors' Report provide the nature and amount of the elements of key management personnel compensation for the year ended 30 June 2014 as permitted by *Corporations Regulation 2M.3.03*.

#### (v) Additional information

The Group's projects are all still at the exploration and evaluation stage and as a result, it does not yet have earnings from mining. In view of that, shareholder wealth is based on the market's view of the value of discoveries made to date, the Group's potential for future discovery success, and the quality and experience of its people. This is reflected in market capitalisation, which is also influenced by factors outside the Group's control, such as commodity prices and general market behaviour.

Accordingly, remuneration policy for key management personnel is based primarily on the extent to which the corporate exploration and evaluation objectives are met, recognising that the timeframe for exploration success commonly exceeds one year. Key performance criteria include measuring actual expenditure against budget, the quality and relevance of geological and other scientific or technical work applied, and the selection, management and performance of field staff and outside contractors, such as drilling contractors. Where a project is sufficiently advanced for it to be appropriate, achievement of resource definition goals is also given considerable emphasis, as the market generally values defined resources more than resource potential. This aspect plays a significant role in setting the long term incentive component of remuneration.

#### (vi) Additional disclosure relating to key management personnel

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

	South American Iron & Steel Corporation Limited	
	Ordinary Shares	Options
T Cuthbertson	198,307	6,000,000
R Haren	183,703	6,000,000
K Lee <sup>1</sup>	2,276,698	6,000,000
S Ning	-	6,000,000
W Ji	-	6,000,000

<sup>1</sup>These shares include 300,000 shares acquired under the Company's employee share purchase plan, prior to K Lee's appointment as a Director, and held by Aconcagua SPP Nominees Pty Limited, a nominee company as security for a non-recourse loan.

***This concludes the remuneration report, which has been audited.***

## **SOUTH AMERICAN IRON & STEEL CORPORATION LIMITED**

A.B.N.: 67 060 319 119

### **and Controlled Entities**

#### **2.13 Non-Audit Services**

During the year Nexia Court & Co, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and by resolution, the Directors of the Company are satisfied that the provision of those non-audit services during the year by the auditor 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 the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence requirements in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board, as they did not involve reviewing or auditing the auditors own work, acting in a management or decision making capacity, acting as an advocate for the Company or jointly sharing risks and rewards.

The following fees for non-audit services were paid / payable to the external auditors during the year ended 30 June 2014:

	\$
Taxation	3,987
Other	-
	<u>3,987</u>

#### **2.14 Auditor's Independence Declaration**

The lead auditor's independence declaration required by Section 307C of the Corporations Act is set out on page 19 and forms part of the Directors' report for the year ended 30 June 2014.

#### **2.15 Indemnification and Insurance of Officers and Auditors**

##### ***Indemnification***

Since the end of the previous financial year, the Company has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an officer or auditor of the Company.

##### ***Insurance Premiums***

During the financial year the Group had paid premiums in respect of Directors' and officers' liability insurance contracts for the year ended 30 June 2014. The consolidated entity has not renewed and will not be renew this insurance after the year end.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and officers' liability insurance contracts, as such disclosure is prohibited under the terms of the contracts.

**SOUTH AMERICAN IRON & STEEL CORPORATION LIMITED**

A.B.N.: 67 060 319 119

**and Controlled Entities****2.16 Unissued shares under Options**

The Company has on issue 44,700,000 options which are not listed on the ASX Official List and are not quoted. The exercise price of each option is at various prices and they may be exercised at any time up to 5.00pm Sydney time on those dates set out in the table below.

<b>No of Options</b>	<b>Exercise Price</b>	<b>Date of Expiry</b>
6,666,666	\$0.10	5 July 2015
6,666,667	\$0.15	5 July 2015
6,666,667	\$0.20	5 July 2015
6,000,000	\$0.12	19 October 2014
6,000,000	\$0.18	19 October 2014
2,000,000	\$0.20	14 December 2016
2,000,000	\$0.25	14 December 2016
2,000,000	\$0.30	14 December 2016 (exercisable from 15 December 2014)
2,000,000	\$0.10	5 July 2015
2,000,000	\$0.15	5 July 2015
2,000,000	\$0.20	5 July 2015
700,000	\$0.15	5 July 2015
<b>44,700,000</b>		

Signed in accordance with a resolution of the Directors



**Kenneth Lee**  
**Managing Director**

**Sydney**

**Dated:** 30 September 2014

The Board of Directors  
South American Iron & Steel Corporation Limited  
Suite 2, Level 10  
8-10 Loftus Street  
SYDNEY NSW 2000

30 September 2014

Dear Board Members

**Auditor's Independence Declaration under section 307C of the *Corporations Act 2001***

As lead audit partner for the audit of the financial statements of South American Iron & Steel Corporation Limited for the financial year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.

Yours sincerely



**Nexia Court & Co**  
Chartered Accountants



**Robert Mayberry**  
Partner

**Sydney**

**Dated:** 30 September 2014

**Sydney Office**

Level 16, 1 Market Street, Sydney NSW 2000  
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Independent member of Nexia International

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH AMERICAN IRON & STEEL CORPORATION LIMITED

### Report on the Financial Report

We have audited the accompanying financial report of South American Iron & Steel Corporation Limited, which comprises the statement of financial position as at 30 June 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine 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. In note 10.2(i), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group and the Company complies 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. These Auditing Standards require that we 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 entity's preparation and fair presentation of the financial report 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 entity'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.

#### *Independence*

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

#### **Sydney Office**

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH AMERICAN IRON & STEEL CORPORATION LIMITED**

### **Report on the Financial Report (Continued)**

#### *Auditor's Opinion*

In our opinion:

- (a) the financial report of South American Iron & Steel Corporation Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 10.2(i).

### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 9 to 16 of the directors' report for the year ended 30 June 2014. 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*

In our opinion, the Remuneration Report of South American Iron & Steel Corporation Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

### **Material uncertainty regarding continuation as a going concern**

Without modifying our opinion, attention is drawn to the following matter:

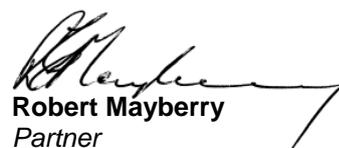
The financial report had been prepared on a going concern basis as discussed in note 10.2 (v) which assumes continuity of normal business activities, the realisation of assets and the settlement of liabilities in the ordinary courses of business. In note 10.2 (v), the Directors state why they consider the going concern basis used in the preparation of the financial report is appropriate. As discussed in that note, if the company does not achieve the planned asset sales and capital raising there is a material uncertainty that casts significant doubt about the entity's ability to continue as a going concern and therefore the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.



**Nexia Court & Co**  
Chartered Accountants

**Sydney**

**Dated:** 30 September 2014



**Robert Mayberry**  
Partner

**and Controlled Entities**

## **5. DIRECTORS' DECLARATION**

The directors of the company declare that:

1. in the directors' opinion, the financial statements and accompanying notes set out on pages 23 to 52 are in accordance with the *Corporations Act 2001* and:
  - (a) comply with Australian Accounting Standards and the *Corporations Regulations 2001*; and
  - (b) give a true and fair view of the company's financial position as at 30 June 2014 and of its performance for the year ended on that date;
2. note 10.2(i) confirms that the financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
3. in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
4. the remuneration disclosures included in pages 9 to 16 of the directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2014, comply with section 300A of the *Corporations Act 2001*; and
5. the directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



**Kenneth Lee**  
Managing Director

Sydney  
Dated: 30 September 2014

## and Controlled Entities

## 6. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2014

	Note	Group	
		2014	2013
		\$	\$
Other income	10.5	273,304	252,553
Total revenue		273,304	252,553
Depreciation	10.6	(5)	(1,852)
Impairment loss (concessions)	10.6	(9,091,433)	-
Impairment loss (assets)	10.6	(49,520)	(1,134,627)
Representative office (Beijing) expenses - administration		(41,093)	(228,594)
Representative office (Beijing) expenses - operations		(42,428)	(285,698)
Other operating expenses		(831,836)	(890,492)
Share based payments	10.6	-	(59,128)
<b>Loss from ordinary activities before income tax expense</b>		<b>(9,783,011)</b>	<b>(2,347,838)</b>
Income tax expense	10.8	-	-
<b>Loss for the year</b>		<b>(9,783,011)</b>	<b>(2,347,838)</b>
<b>Other Comprehensive Income, net of tax</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Exchange differences arising on translation of foreign operations		(418,192)	276,945
<b>Total Comprehensive Income for the period</b>		<b>(10,201,203)</b>	<b>(2,070,893)</b>
Basic and Diluted earnings per share in cents	10.23	(0.031)	(0.008)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

**SOUTH AMERICAN IRON & STEEL CORPORATION LIMITED**

A.B.N.: 67 060 319 119

**and Controlled Entities****7. STATEMENT OF FINANCIAL POSITION**

As at 30 June 2014

	Note	Group 2014 \$	2013 \$
<b>Current assets</b>			
Cash and cash equivalents	10.9	96,251	536,682
Trade and other receivables	10.10	24,063	228,735
Other assets	10.12	53,240	53,240
<b>Total current assets</b>		<b>173,554</b>	<b>818,657</b>
<b>Non-current assets</b>			
Other assets	10.12	42,700	42,700
Property, Plant and equipment	10.13	179,796	253,217
Exploration and evaluation expenditure	10.14	-	9,059,707
<b>Total non-current assets</b>		<b>222,496</b>	<b>9,355,624</b>
<b>Total assets</b>		<b>396,050</b>	<b>10,174,281</b>
<b>Current liabilities</b>			
Trade and other payables	10.15	788,836	346,104
Other liabilities	10.16	400,000	400,000
Employee entitlements	10.17	45,027	62,782
<b>Total current liabilities</b>		<b>1,233,863</b>	<b>808,886</b>
<b>Non-current liabilities</b>			
Employee entitlements	10.17	22,847	24,852
<b>Total non-current liabilities</b>		<b>22,847</b>	<b>24,852</b>
<b>Total liabilities</b>		<b>1,256,710</b>	<b>833,738</b>
<b>Net assets</b>		<b>(860,660)</b>	<b>9,340,543</b>
<b>Equity</b>			
Contributed equity	10.18	41,054,447	41,054,447
Reserves	10.19	1,167,727	1,585,919
Accumulated losses		(43,082,834)	(33,299,823)
<b>Total equity</b>		<b>(860,660)</b>	<b>9,340,543</b>

The above statement of financial position should be read in conjunction with the accompanying notes.

**SOUTH AMERICAN IRON & STEEL CORPORATION LIMITED**

A.B.N.: 67 060 319 119

and Controlled Entities

**8. STATEMENT OF CHANGES IN EQUITY**

For the year ended 30 June 2014

	Share Capital	Share Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total Equity
	\$	\$	\$	\$	\$
<b>At 1 July 2013</b>	41,054,447	1,651,650	(65,731)	(33,299,823)	9,340,543
<b>Comprehensive Income for the year</b>					
Loss for the period	-	-	-	(9,783,011)	(9,783,011)
Foreign currency translation differences	-	-	(418,192)	-	(418,192)
<b>Total Comprehensive Income for the year</b>	-	-	(418,192)	(9,783,011)	(10,201,203)
<b>Transactions with Owners</b>					
Share issue (net)	-	-	-	-	-
Share based payments	-	-	-	-	-
<b>Total Transactions with Owners</b>	-	-	-	-	-
<b>At 30 June 2014</b>	41,054,447	1,651,650	(483,923)	(43,082,834)	(860,660)

The above statement of changes in equity should be read in conjunction with the accompanying notes.

**SOUTH AMERICAN IRON & STEEL CORPORATION LIMITED**

A.B.N.: 67 060 319 119

and Controlled Entities

**8. STATEMENT OF CHANGES IN EQUITY (CONTINUED)**

For the year ended 30 June 2013

	Share Capital	Share Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total Equity
	\$	\$	\$	\$	\$
<b>At 1 July 2012</b>	39,213,956	1,592,522	(342,676)	(30,951,985)	9,511,817
<b>Comprehensive Income for the year</b>					
Loss for the period	-	-	-	(2,347,838)	(2,347,838)
Foreign currency translation differences	-	-	276,945	-	276,945
<b>Total Comprehensive Income for the year</b>	-	-	276,945	(2,347,838)	(2,070,893)
<b>Transactions with Owners</b>					
Share issue (net)	1,840,491	-	-	-	1,840,491
Share based payments	-	59,128	-	-	59,128
<b>Total Transactions with Owners</b>	1,840,491	59,128	-	-	1,899,619
<b>At 30 June 2013</b>	41,054,447	1,651,650	(65,731)	(33,299,823)	9,340,543

The above statement of changes in equity should be read in conjunction with the accompanying notes.

**SOUTH AMERICAN IRON & STEEL CORPORATION LIMITED**

A.B.N.: 67 060 319 119

and Controlled Entities

**9. STATEMENT OF CASH FLOWS**

For The Year Ended 30 June 2014

	Note	Group 2014 \$	2013 \$
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		132,000	104,160
Cash payments in the course of operations		(541,829)	(1,495,135)
Interest received		4,441	14,428
		<hr/>	<hr/>
<b>Net cash from operating activities</b>	10.24(ii)	<b>(405,388)</b>	<b>(1,376,547)</b>
<b>Cash flows from investing activities</b>			
Payment for mining rights and exploration costs		(234,132)	(368,835)
Proceeds from purchase option agreement		136,863	133,965
Payment for plant and machinery		-	(18,143)
		<hr/>	<hr/>
<b>Net cash from investing activities</b>		<b>(97,269)</b>	<b>(253,013)</b>
<b>Cash flows from financing activities</b>			
Proceeds from share issue (net)		-	1,840,491
Proceeds from borrowings		62,226	-
		<hr/>	<hr/>
<b>Net cash from financing activities</b>		<b>62,226</b>	<b>1,840,491</b>
		<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>		<b>(440,431)</b>	<b>210,931</b>
Cash and cash equivalents at the beginning of the financial year		536,682	325,751
		<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the financial year</b>	10.24(i)	<b>96,251</b>	<b>536,682</b>

The above statement of cash flows should be read in conjunction with the accompanying notes.

## **10. NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2014

### **10.1 Reporting Entity**

South American Iron & Steel Corporation Limited (the 'Company') is a company incorporated and domiciled in Australia, is a public company limited by shares and is listed on the ASX. The address of the Company's registered office is Level 10, 8-10 Loftus Street, Sydney, NSW 2000. The consolidated financial statements of the Company as at and for the year ended 30 June 2014 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is a for-profit entity and its principal activity is mineral exploration in South America.

### **10.2 Basis of Preparation**

#### **(i) Statement of Compliance**

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial report of the Group and the financial report of the Company comply with International Financial Reporting Standards ('IFRSs') and interpretations adopted by the International Accounting Standards Board ('IASB').

The financial statements were approved by the Board of Directors on 30 September 2014.

This report was authorised for issue by the Directors on 30 September 2014. The Company has the power to amend and re-issue the financial report.

#### **(ii) Basis of Measurement**

The consolidated financial statements have been prepared on the historical cost basis except where indicated otherwise.

#### **(iii) Functional and Presentation Currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Company's functional and presentation currency.

#### **(iv) New and Amended Standards Adopted by the Group**

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2013 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

#### **Early adoption of standards**

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2013.

## **SOUTH AMERICAN IRON & STEEL CORPORATION LIMITED**

A.B.N.: 67 060 319 119

### **and Controlled Entities**

#### **(v) Going Concern**

The Directors have performed a review of the cash flow forecasts and have considered the cash flow needs of the Company and Consolidated Group, including the ability to reduce the level of cash expenditure if required to do so.

The Group recorded a loss of \$9,783,011 which includes non-cash items of impairment losses on investments and concessions of \$9,091,433 and has a net deficiency in assets of \$860,660.

Directors have initiated certain actions to ensure that the Company's viability as a going concern. Such actions include:

- Subsequent to year end, the Company has successfully renegotiated the terms and conditions of an existing \$400,000 non-interest bearing loan which was not repayable until on demand by the Note holder after 15 December 2013 to until on demand by the Note holder after 15 December 2015.
- The Directors have agreed that their fees owed by the Company of \$517,108 will not be repayable before 15th December 2015; or will be repaid through the issue of shares. Advances of \$37,000 from a director will also not be repayable before 15th December 2015; or may be converted to loan note; or until additional funding has been raised on the back of new opportunities.
- The Company has appointed a corporate adviser to assist in the identification of new business opportunities and the sourcing of additional funding for working capital.
- The Company is contracted to receive the final instalment of approximately US \$650,000 in early February 2015 from the sale of its 10% interest in the Quince concession. This amount has not been recognised as an asset in the Statement of Financial Position.
- The Company is continuing to pursue the sale of its land in Aguas Claras. The sale value of the land is expected to receive between US \$200,000 and US \$400,000.
- The Company has instigated a number of cost cutting measures aimed at minimising cash outflows through this transitional phase.
- The Directors have agreed to suspend key terms of their existing service contracts during this period of austerity, and will not receive remuneration until additional funding has been raised on the back of new opportunities or improved market conditions for juniors.

Consequently, the Directors are of the opinion that the use of the going concern basis of accounting is appropriate.

Should the Company not achieve the planned asset sales and capital raising detailed above, there is significant uncertainty as to whether the Company will continue to trade as a going concern and therefore realise its assets and extinguish its liabilities in the normal course of business as stated in the financial report. The financial report does not include any adjustments that may be necessary if the Company is unable to continue as a going concern.

## **and Controlled Entities**

### **(vi) Use of estimates and judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. 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 and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgement in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes.

- Note 10.14 – exploration and evaluation expenditure;
- Note 10.17 – employee entitlements.

## **10.3 Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

### **(i) Principles of consolidation**

#### Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2014 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in this financial report as the 'Group'.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

In the Company's financial statements, investments in subsidiaries are carried at cost.

The financial statements of controlled entities are included from the date control commences until the date control ceases.

#### Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

### **(ii) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segment's operating results are regularly reviewed by the Group's Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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#### **(iii) Foreign currency transactions**

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the Statement of Profit or Loss and Other Comprehensive Income in the financial year in which the exchange rates change.

#### **(iv) Revenue recognition**

Revenues are recognised at fair value of the consideration received or receivable.

##### Interest Revenue

Interest revenue is recognised as it accrues.

##### Rental Income

Rental income is recognised as it accrues.

##### Other Income

Income from other sources is recognised when the amount of revenue can be measured reliably and it is probable that future economic benefits will flow to the entity.

#### **(v) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

##### Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is South American Iron & Steel Corporation Ltd.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

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Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised by the Company as amounts payable (receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

#### **(vi) Acquisitions of assets**

All assets acquired including property, plant and equipment are initially recorded at their cost at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value at the date of acquisition. The discount rate used is the rate at which a similar borrowing could be obtained under comparable terms and conditions.

Where the fair value of the identifiable net assets acquired, including any liability for restructuring costs, exceeds the cost of acquisition, the difference, representing a discount on acquisition, is accounted for by reducing proportionately the fair values of the non-monetary assets acquired until the discount is eliminated.

#### **(vii) Impairment of assets**

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### **(viii) Cash and cash equivalents**

For statement of cash flows purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

#### **(ix) Receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present

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value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the statement of profit or loss and other comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of profit or loss and other comprehensive income.

#### **(x) Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods:

##### *Financial instruments not traded in active markets*

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Techniques, such as estimated discounted cash flows, are used to determine fair value for the financial instruments.

##### *Trade receivables and payables*

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

##### *Share based payments*

The fair value of employee share options is measured using a binomial lattice model. The fair value of share appreciation rights is measured using the binomial option pricing model.

Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on weighted average historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into accounting in determining fair value.

#### **(xi) Property, plant and equipment**

##### *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present value in determining recoverable amount.

#### *Subsequent Costs*

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

#### *Depreciation*

Land is not depreciated. Depreciation on other assets is calculated using the diminishing value method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

	<b>Depreciation rate</b>		<b>Depreciation method</b>
	<b>2014</b>	<b>2013</b>	
Plant and equipment	7% - 40%	7% - 40%	Diminishing value

Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

#### **(xii) Exploration and Evaluation Expenditure**

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.

Initial recognition of exploration and evaluation expenditure is at cost. Where a concession is acquired at fair-value it is recognised at that value representing the cost to the Company. Subsequent recognition of expenses remains at cost.

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.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

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

#### **(xiii) Payables**

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 45 days.

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#### **(xiv) Employee benefits**

##### *Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables and accruals and provisions for employee benefits in respect of employees services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. These liabilities represent present obligations resulting from employee's service provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs.

Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

##### *Long Service Leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

##### *Share based payments*

Share-based compensation benefits are provided to employees via the Employee Share Scheme. The fair values of options granted under the scheme are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using the binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the statement of profit or loss and other comprehensive income with a corresponding adjustment to equity.

#### **(xv) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

#### **(xvi) Earnings per share**

##### *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

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#### *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

#### **(xvii) Goods and services tax ('GST')**

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 Australian Taxation Office (ATO) or, in the case of a foreign entity, from the relevant foreign tax authorities. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from or payable to, the ATO or from the relevant foreign tax authorities is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO or from the relevant foreign tax authorities are classified as operating cash flows.

#### **(xviii) New standards and interpretations not yet adopted**

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2013 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2013.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods and have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is set out below.

##### **i. *AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)***

AASB 9 Financial Instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity instruments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit and loss. In the current reporting period, the Group did not recognise any such activity therefore there were no gains recorded in other comprehensive income.

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There will be no impact on the Group's Accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The Group will apply the amended standards from 1 July 2017.

#### **(xix) Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is confirmed.

#### **(xx) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

### **10.4 Financial Risk Management**

The Group's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to provide working capital for the Group's operations.

The Group has various other financial instruments such as trade debtors, trade creditors, which arise directly from its operations.

The Group's current policy, and has been throughout the period under review, is that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are:

- credit risk;
- liquidity rate risk;
- interest risk;
- foreign currency risk;
- commodity risk; and
- market risk.

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

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The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Company and Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and Group's activities. The Company and Group, through management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

#### **Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The Group does not have any significant credit risk exposure to a single counterparty of any group of counterparties having similar characteristics.

#### **Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group has no significant exposure to liquidity risk as there is effectively no debt. The Group manages liquidity risk by monitoring immediate and forecast cash requirements and ensuring adequate cash reserves are maintained.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days.

#### **Interest rate risk**

At balance date the Group's exposure to market risk for changes in interest rates relates primarily to the Company's short-term cash deposits. The Group constantly reviews and analyses its exposure to interest rates, with consideration given to potential renewal of existing positions, the mix of fixed and variable interest rates and the period to which deposits may be fixed.

At balance date, the Group had the following financial assets exposed to variable interest rates that are not designated in cash flow hedges:

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Financial Assets</b>		
Cash & cash equivalents	96,251	536,682
Other financial assets	53,240	53,240
Net exposure	<u>149,491</u>	<u>589,922</u>

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date. At 30 June 2014, if interest rates had moved, with all other variables held constant, post-tax losses and equity would have been affected as follows:

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		Group	
		2014	2013
		\$	\$
<i>Judgements of reasonable possible movements:</i>			
<b>Post tax loss</b>			
+1.0% (2013:1.0% (100 basis points))	1%	1,495	5,899
-1.0% (2013:1.0% (100 basis points))	-1%	<u>(1,495)</u>	<u>(5,899)</u>
<b>Equity</b>			
+1.0% (2013:1.0% (100 basis points))	1%	1,495	5,899
-1.0% (2013:1.0% (100 basis points))	-1%	<u>(1,495)</u>	<u>(5,899)</u>

The movements in losses are due to possible higher or lower interest income from cash balances. The sensitivity is lower than 2013 because of the decrease in financial assets.

### Foreign currency risk

As a result of minerals exploration operations in South America being dominated by the United States Dollar (USD), the Group's statement of financial position can be affected by movements in the USD/AUD exchange rates. The Company does not hedge this exposure.

The Group manages its foreign currency risk by constantly reviewing its exposure to commitments payable in foreign currency and ensuring appropriate cash balances are maintained in USD, to meet operational commitments.

At 30 June 2014, the Group had the following exposures to USD foreign currency risk that is not designated in cash flow hedges:

		Group	
		2014	2013
		\$	\$
<i>Net Assets:</i>			
Current assets		65,265	195,062
Non-current assets		179,796	2,882,771
Current liabilities		(109,121)	(6,974)
Non-current liabilities		-	-
Net exposure		<u>135,940</u>	<u>3,070,859</u>

		Group	
		2014	2013
		\$	\$
<i>Judgements of reasonable possible movements:</i>			
<b>Reserves and equity</b>			
15.0% \$A currency gain	15%	20,391	460,629
15.0% \$A currency loss	-15%	<u>(20,391)</u>	<u>(460,629)</u>

### Commodity risk

The Group's exposure to price risk is minimal as the Group is still in an exploration phase.

### Market risk

Market risk is the risk that changes in market prices will affect the Group's income. The Group's exposure to market risk is minimal as the Group is still in an exploration phase.

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#### Estimation of fair values

The methods used in determining the fair values of financial instruments are discussed in note 10.3(x).

#### Fair Values

	<b>2014</b>	<b>2014</b>
	<b>Carrying</b>	<b>Net Fair</b>
	<b>Amount</b>	<b>Value</b>
	<b>\$</b>	<b>\$</b>
<i>Financial Assets:</i>		
Cash and cash equivalents	96,251	96,251
Trade and other receivables	24,063	24,063
Other financial assets	95,940	95,940
	<hr/>	<hr/>
	216,254	216,254
	<hr/>	<hr/>

#### *Fair value sensitivity analysis or fixed rate instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

#### 10.5 Other Income

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Interest Received	4,441	14,428
Rent Received	132,000	104,160
Purchase Option Income	136,863	133,965
	<hr/>	<hr/>
	<b>273,304</b>	<b>252,553</b>
	<hr/>	<hr/>

#### 10.6 Expenses

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Depreciation - plant and equipment	5	1,852
Staff and directors salaries	392,000	377,000
Staff superannuation	23,772	23,130
Rental expenses	162,295	155,225
Impairment loss on concessions	9,091,433	-
Impairment loss on assets	49,520	1,134,627
Share based payments	-	59,128
	<hr/>	<hr/>

During the year, management reviewed the recoverable amount of its exploration assets and in view of significant falls in the iron ore price which has materially affected the marketability of SAIS iron sands; current market difficulties the junior mining sector is experiencing in maintaining investor support and raising further funds to advance its operations; determined that there is not enough evidence to support the existing carrying value. An impairment was recognised during the year of \$9,091,433.

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**and Controlled Entities****10.7 Auditors' remuneration**

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Nexia Court & Co		
- Audit services	56,900	55,465
- Other services	3,987	3,499
Humphreys y Cia (auditor of Inversiones Aconcagua Ltda; Inversiones Arenas Claras Ltda; and Inversiones Arenas Maullin Ltda)		
- Audit services	8,000	13,340

Prior year includes actual audit fees paid/payable.

**10.8 Income tax**

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Numerical reconciliation between tax expense and pre-tax loss</b>		
Loss for the year	9,783,011	2,347,838
Total income tax expense	-	-
Loss excluding income tax expense	9,783,011	2,347,838
Income tax benefit using the company's domestic tax rate of 30% (2013 – 30%)	(2,934,903)	(704,351)
Amounts not deductible	2,721,502	358,126
Timing differences not brought to account	19,761	(19,688)
Tax effect of losses – not recognised	193,640	365,913
	-	-

Available tax and capital losses to date amount to \$15,852,216. As at the date of this report, no deferred tax asset have been recognised as it is not yet considered sufficiently probable that future taxable profits will be generated in the appropriate jurisdictions to enable these to be utilised. The total deferred tax asset not recognised in relation to tax losses is \$4,755,665.

**10.9 Cash and cash equivalents**

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Cash at bank	96,251	536,682

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**and Controlled Entities****10.10 Trade and Other Receivables**

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Employees' loans receivables	323,450	323,450
Less: Impairment loss	(315,950)	(315,950)
	7,500	7,500
GST – Refundable	6,788	9,816
Other Receivables	9,775	211,419
	<b>24,063</b>	<b>228,735</b>

**10.11 Investments in Controlled Entities**

		<b>Group Interest</b>	
		<b>2014</b>	<b>2013</b>
		<b>%</b>	<b>%</b>
<u>Controlled entities</u>			
Clearwater Resources Pty Ltd	Ordinary	100.00	100.00
Aconcagua Iron Sands Pty Ltd	Ordinary	100.00	100.00
South American Iron Sands Pty Ltd	Ordinary	100.00	100.00
Inversiones Aconcagua Ltda	Ordinary	99.95	99.95
Inversiones Arenas Claras Ltda	Ordinary	99.95	99.95
Inversiones Arenas Maullin Ltda	Ordinary	99.95	99.95
Minera Fierro Inca Ecuador S.A.	Ordinary	99.95	99.95
Agroindustrial Ana Julia S.A.	Ordinary	99.95	99.95
SAIS Gold Limited	Ordinary	100.00	100.00

**10.12 Other assets**

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Deposit - rent guarantee	53,240	53,240
	53,240	53,240
<b>Non-Current</b>		
Investments at cost – Quince concession <sup>1</sup>	42,600	42,600
Investments at cost – Ample Success Investment Limited <sup>2</sup>	100	100
	<b>42,700</b>	<b>42,700</b>

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<sup>1</sup> The investment relates to a 10% interest in the mining concessions of Quince, which is located in Chile. There is a purchase option on the Quince concession for US \$12.5 million. Under the terms of the option, the buyer has to pay an equivalent of 10% of the purchase price by 31<sup>st</sup> January of each year (from 31<sup>st</sup> January 2012) to renew the option. On or before 31<sup>st</sup> January 2015, the buyer will either exercise the option or lapse the option. In the event that the buyer exercises the option, the buyer will have to pay the purchase price (US \$12.5 million) less amounts of option payments (3 payments of US \$1.25 million) made from 31<sup>st</sup> January 2012; that is US \$8.75 million. At the date of this report, the Company has been informed that the buyer is very likely to exercise the option on or before 31<sup>st</sup> January 2015. If this occurs, the Company is expected to receive approximate net proceeds (after Chilean tax and related fees and expenses) of US \$650,000.

<sup>2</sup> The investment relates to a 15% interest in Ample Success Investment Limited which has a 75% interest in a mining concession in Weishan County, China.

### 10.13 Property, plant and equipment

	Group	
	2014	2013
Non-Current	\$	\$
Land	179,796	203,692
IT software – at cost	57,521	57,521
<b>Less:</b> Accumulated Depreciation	(57,521)	(57,521)
	-	-
Furniture and fittings – at cost	3,723	3,723
<b>Less:</b> Accumulated Depreciation	(3,723)	(3,723)
	-	-
Motor vehicles – at cost	23,233	26,054
<b>Less:</b> Impaired/Accumulated Depreciation	(23,233)	(4,636)
	-	21,418
Other assets – at cost	41,136	41,136
<b>Less:</b> Accumulated Depreciation	(41,136)	(41,131)
	-	5
Plant and equipment – at cost	43,418	45,070
<b>Less:</b> Impaired /Accumulated depreciation	(43,418)	(16,968)
	-	28,102
	<b>179,796</b>	<b>253,217</b>

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#### Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

#### 30 June 2014

	Land	Motor Vehicles	Other assets	Plant and equipment	Total
	\$	\$	\$	\$	\$
Carrying amount at beginning of year	203,692	21,418	5	28,102	253,217
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Impairment of assets	-	(21,418)	-	(28,102)	(49,520)
Effect on currency movements	(23,896)	-	-	-	(23,896)
Depreciation	-	-	(5)	-	(5)
	<b>179,796</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>179,796</b>

#### 30 June 2013

	Land	Motor Vehicles	Other assets	Plant and equipment	Total
	\$	\$	\$	\$	\$
Carrying amount at beginning of year	183,675	3,572	803	26,725	214,775
Additions	-	18,142	-	-	18,142
Disposals	-	-	-	-	-
Impairment of assets	-	-	-	-	-
Effect on currency movements	20,017	704	-	1,430	22,151
Depreciation	-	(1,000)	(798)	(53)	(1,851)
	<b>203,692</b>	<b>21,418</b>	<b>5</b>	<b>28,102</b>	<b>253,217</b>

### 10.14 Exploration and evaluation expenditure

	Group	
	2014	2013
	\$	\$
Carrying amount at the beginning of the year	9,059,707	8,438,665
Expenditure during the year	196,039	368,837
Effect of currency movements	(164,313)	252,205
Impairment loss on concessions	(9,091,433)	-
	<b>-</b>	<b>9,059,707</b>
Mining Concessions	-	7,451,468
Exploration costs	-	1,608,239
	<b>-</b>	<b>9,059,707</b>

The ultimate recoupment of costs carried forward for exploration assets is dependent on the successful development and commercial exploration or sale of the respective areas.

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**and Controlled Entities****10.15 Trade and other payables**

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Trade creditors	634,291	305,436
Other creditors and accruals	154,545	40,668
	<b>788,836</b>	<b>346,104</b>

Included in trade creditors and other creditors and accruals are amounts due to directors in relation to their fees of \$517,108 and advances from directors of \$37,000. The directors have confirmed that those fees will not be repayable before 15th December 2015; or will be repaid through the issue of shares. Advances from directors will also not be repayable before 15th December 2015; or may be converted to loan note.

**10.16 Other liabilities**

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Loan Instrument – non-interest bearing	400,000	400,000

Subsequent to balance date, the Company amended the terms and conditions of the loan instrument. Post amendment, the terms and conditions were non-interest bearing and is not repayable until on demand by the Note holder after 15 December 2015.

**10.17 Employees entitlements**

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Current	45,027	62,782
Non-current	22,847	24,852
	<b>67,874</b>	<b>87,634</b>

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**and Controlled Entities****10.18 Contributed equity**

	The Company and Group		The Company and Group	
	2014	2013	2014	2013
	Shares	Shares	\$	\$
<b>Share capital</b>				
318,597,886 Ordinary Shares	318,597,886	318,597,886	41,054,447	41,054,447
Capital issued during the year				
Balance at beginning of year	318,597,886	272,785,604	41,054,447	39,213,956
Ordinary shares issued during the year	-	45,812,282	-	1,882,491
Cost of raising capital	-	-	-	(42,000)
<b>Balance at end of year</b>	<b>318,597,886</b>	<b>318,597,886</b>	<b>41,054,447</b>	<b>41,054,447</b>

The Company does not have authorised share capital or par value in respect of its issued shares. All issued shares are fully paid.

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At the shareholders meetings, each ordinary share is entitled to one vote at meetings of the Company.

**Capital Management**

The Group considers its capital to comprise its ordinary share capital and reserves.

In managing its capital, the Group's primary objective as an explorer is to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs.

In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, or consideration of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

There are no externally imposed capital requirements.

**10.19 Reserves**

	Group	
	2014	2013
	\$	\$
<b>Foreign currency reserve</b>		
Balance at 1 July	(65,731)	(342,676)
Foreign exchange movement effect	(418,193)	276,945
Balance at 30 June	(483,924)	(65,731)
<b>Share based payments reserve</b>		
Balance at 1 July	1,651,650	1,592,522
Share based payments	-	59,128
Balance at 30 June	1,651,650	1,651,650
<b>Total Reserves</b>	<b>1,167,726</b>	<b>1,585,919</b>

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#### ***Foreign currency translation reserve***

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations and subsidiaries.

#### ***Share based payments reserve***

The share based payments reserve comprises all amounts arising for the grant of options or shares in exchange for services in the consolidated entity.

### **10.20 Operating Segments**

The Group has four reportable segments, as described below, which are the Group's strategic business units.

The following summary describes the operations in each of the Group's reportable segments:

#### **Australia**

The Group's headquarters are located in Australia.

#### **Chile**

The Chilean entities, Inversiones Aconcagua Limitada; Inversiones Arenas Claras Limitada; and Inversiones Arenas Maullin Limitada are 99.95% owned by South American Iron & Steel Corporation Limited.

#### **Ecuador**

The Ecuadorian exploration operation, Minera Fierro Inca Ecuador S.A., formerly known as Minera Aconcagua Ecuador S.A., is 99.95% owned by South American Iron & Steel Corporation Limited.

The Ecuadorian agriculture operation, Agroindustrial Ana Julia S.A., is 99.95% owned by South American Iron & Steel Corporation Limited.

#### **Hong Kong**

SAIS Gold Limited was formed to enable the Group to hold investment in Ample Success Investment Limited ("Ample Success"). Ample Success owns 75% of the Yunnan Weishan Mineral Concession. The company has not traded during the financial year and holds no assets.

Information regarding each reportable segment is presented below. The accounting policies of the new reportable segments are the same as the Group's accounting policies.

Comparative segment information has been represented in conformity with the requirement of AASB 8 Operating Segments.

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**10.20 Operating Segments (continued)**

For the year ended 30 June 2014

	Australia		Chile		Ecuador		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$	\$	\$
External revenues	132,000	104,160	136,863	133,965	-	-	268,863	238,125
Interest revenue	4,441	14,428	-	-	-	-	4,441	14,428
Depreciation	5	799	-	1,053	-	-	5	1,852
Impairment	-	1,134,627	9,140,953	-	-	-	9,140,953	1,134,627
Reportable segment loss/(profit) before income tax	690,574	2,408,137	9,092,437	(60,299)	-	-	9,783,011	2,347,838
Consolidated loss before income tax							(9,783,011)	(2,347,838)
Additions to non-current assets	-	-	-	386,979	-	-	-	386,979
Reportable segment assets	216,254	656,484	179,796	9,492,797	-	25,000	396,050	10,174,281
Reportable segment liabilities	1,147,589	826,765	109,121	6,973	-	-	1,256,710	833,738
<b>Reconciliation of reportable segment profit or loss</b>	<b>2014</b>	<b>2013</b>						
Total loss for reportable segments	(9,783,011)	(2,347,838)						
Other loss	-	-						
	(9,783,011)	(2,347,838)						
Elimination of inter-segment profits	-	-						
Consolidated loss before income tax	(9,783,011)	(2,347,838)						

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 June 2013.

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#### 10.21 Key management personnel disclosures

The key management personnel of the consolidated entity are the Directors and executives of the Company.

##### (i) Directors

- T Cuthbertson
- R Haren
- K Lee
- S Ning
- W Ji

##### (ii) Key management personnel compensation

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Short term employee benefits	315,000	312,831
Post-employment benefits	16,650	16,200
Other long-term benefits	(26,092)	3,268
Share-based payments	-	55,382
	<u>305,558</u>	<u>387,681</u>

##### (iii) Individual directors and executives compensation disclosures

Information regarding individual directors and executives' compensation and some equity instruments disclosures as required by Corporations Regulations is provided in the remuneration report section of the directors' report.

Apart for the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

##### (iv) Loans to/from key management personnel

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Loans to:</b>		
• Mr K Lee under the Employees Share Plan <sup>1</sup>	323,450	323,450
<b>Loans and advances from:</b>		
• Mr K Lee <sup>2</sup>	<u>37,000</u>	<u>-</u>

<sup>1</sup> Kenneth Lee was issued 300,000 shares at \$1.078 per share under the Employees Share Plan on 21 May 2008, prior to his appointment as a Director of the Company. He was appointed Director of the Company on 24 March 2009. The loan has been impaired to the value of the shares as they are the only recourse to the loan. Impairment expense recognised during the year was \$nil (2013: \$Nil)

<sup>2</sup> Mr K Lee has confirmed that the loans and advances, included in other creditors, of \$37,000 will not be repayable until after 15<sup>th</sup> December 2015; or may be converted to loan note; or until additional funding has been raised on the back of new opportunities.

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**and Controlled Entities****10.22 Superannuation commitments**

All services provided to the entities in the consolidated entity during the financial year were through incorporated and unincorporated contractual arrangements.

**10.23 Earnings per share**

	2014	Group 2013
	\$	\$
Basic and Diluted earnings per share	(0.031)	(0.008)
Loss for the year	9,783,011	2,347,838
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share.	<u>318,597,886</u>	<u>294,813,981</u>

**10.24 Notes to the Statement of Cash Flows****(i) Cash**

For the purpose of the Statement of Cash Flows, Cash and cash equivalents includes Cash at bank. Cash and cash equivalents at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2014	Group 2013
	\$	\$
Cash at bank	<u>96,251</u>	<u>536,682</u>

**(ii) Reconciliation of net cash**

Reconciliation of loss for the year to net cash from operating activities.

	2014	Group 2013
	\$	\$
<b>Loss for the year</b>	<b>(9,783,011)</b>	<b>(2,347,838)</b>
Depreciation – plant and equipment	5	1,852
Foreign exchange differences	419,798	(131,377)
Impairment loss - Employees Share Plan	-	-
Impairment loss - Concessions	9,091,433	-
Impairment loss – Other assets	49,520	1,134,627
Share based payments	-	59,128
<b>Changes in Assets and Liabilities:</b>		
Change in other debtors and prepayments	204,672	(67,928)
Change in other payables and accruals	113,876	(7,138)
Change in trade creditors	328,855	(37,770)
Change in provisions	(19,760)	19,897
<b>Net cash from operating activities</b>	<b><u>(405,388)</u></b>	<b><u>(1,376,547)</u></b>

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#### 10.25 Events subsequent to balance date

In the interval between the end of the financial year and the date of this report the Company issued the following loan notes:

Date of Issue	Amount	Terms
20 <sup>th</sup> August 2014	\$30,000	12% per annum to 20 <sup>th</sup> November 2014 and extendable to 20 <sup>th</sup> December 2015.
26 <sup>th</sup> September 2014	\$20,000	12% per annum to 20 <sup>th</sup> November 2014 and extendable to 20 <sup>th</sup> December 2015.
29 <sup>th</sup> September 2014	\$50,000	12% per annum to 20 <sup>th</sup> November 2014 and extendable to 20 <sup>th</sup> December 2015.

On 24<sup>th</sup> September 2014, the Company has successfully renegotiated the terms and conditions of an existing \$400,000 non-interest bearing loan which was not repayable until on demand by the Note holder after 15 December 2013 to until on demand by the Note holder after 15 December 2015.

#### 10.26 Parent Entity Disclosure

	Parent Entity	
	2014	2013
	\$	\$
<b>Financial Position:</b>		
<b>Assets</b>		
Current assets	160,401	623,595
Non-current assets	42,700	11,056,239
<b>Total assets</b>	<b>203,101</b>	<b>11,679,834</b>
<b>Liabilities</b>		
Current liabilities	1,124,742	801,912
Non-current liabilities	22,847	24,853
<b>Total liabilities</b>	<b>1,147,589</b>	<b>826,765</b>
<b>Equity</b>		
Issued capital	41,054,446	41,054,446
Accumulated losses	(43,650,586)	(31,853,029)
Reserves	1,651,652	1,651,652
<b>Total equity</b>	<b>(944,488)</b>	<b>10,853,069</b>
<b>Financial Performance:</b>		
Loss for the year	11,797,557	2,408,137
Other comprehensive income	-	-
<b>Total comprehensive loss</b>	<b>11,797,557</b>	<b>2,408,137</b>

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#### **10.27 Capital and Leasing Commitments:**

The Parent Entity did not have any capital commitments at balance date.

Commitments from minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Within one year	86,226	166,620
Later than one year and no later than five years	-	86,226
	<u>86,226</u>	<u>252,846</u>

The group leases an office building under an operating lease due to expire in 31 December 2014.

#### **10.28 Contingent Liability:**

On 20<sup>th</sup> June 2014, the Company signed an agreement with Sociedad Minera GuangDa Atacama Ltda, a company incorporated in Chile, ("SMGA") with a view to acquire 30% of SMGA's equity for US \$1.67 million. The amount is payable within 10 working days upon SMGA obtaining the Environmental Impact Assessment and all relevant approvals to beneficiate the copper ore tailings.

SMGA is unlikely to acquire the Environmental Impact Assessment ("EIA") and all relevant approvals to beneficiate the copper ore tailings before 30<sup>th</sup> June 2015.

Subsequent to the year ended 30 June 2014, the Company has terminated the agreement with SMGA on the basis that Century Sunny Investment Limited, has taken over the commitments under the original agreement with the Company.

#### **10.29 Contingent Asset:**

The Company currently owns a 10% interest in the Quince concessions.

A Purchase Option Agreement dated 21 December 2011 was entered into between Hanwell and Gonzalo Vial Concha, to acquire the Quince concession. Under that agreement the buyer has the following payment terms to maintain the option:

- The total consideration price is US \$12,500,000;
- To maintain the right to buy the concession, three payments of US \$1,250,000 were due on 31 January 2012, 31 January 2013, and 31 January 2014.
- A final payment of US \$8,750,000 is due on 31 January 2015.

The buyer has paid the first three payments in the Purchase Option Agreement and management have accounted for the option payments as revenue on receipt of monies owed. Under the terms of the agreement, title does not pass to the buyer until the final payment is made. The counterparty has no obligation to complete the transaction and consequently no amount has been recognised as an asset as at 30 June 2014. The Company expects the transaction to complete and therefore receive 10% of US \$8,750,000 less directly attributable costs (being approximately US \$650,000).

## **11. CORPORATE GOVERNANCE STATEMENT**

### **11.1 Introduction**

The Australian Stock Exchange ("ASX") Listing Rules ("Listing Rules") require a listed entity to include in its Annual Report a statement on corporate governance practices disclosing the extent to which it has followed the "best practice" corporate governance recommendations set by the ASX Corporate Governance Council. If the entity has not followed any of the recommendations, it must identify them and give reasons why. It must state the period during which the recommendations were followed. For this purpose, Listing Rules Guidance Note 9A sets out the 8 essential corporate governance principles and the applicable "best practice recommendations".

The concept of "*corporate governance*" is the systems, policies and procedures under which an entity is directed and managed. The benefits of good corporate governance are accountability, systems of control and the encouragement to create value.

There is no single model of good corporate governance. Corporate governance will evolve as an entity's circumstances change and must be tailored to its circumstances.

### **11.2 Compliance with ASX Listing Rule 4.10.3**

Listing Rule 4.10.3 and Guidance Note 9A reflect ASX policy that it is "*appropriate to focus on disclosure of corporate governance practices rather than prescribe adoption of a particular practice*". Therefore, an entity's obligation is to highlight areas of departure from the recommendations: the "*if not, why not?*" approach.

### **11.3 The Company's approach**

The Board and senior management of South American Iron & Steel Corporation Limited (the "Company") are committed to acting responsibly, ethically and with high standards of integrity as the Company endeavours to create shareholder value. To achieve this goal, the Board is developing for the adoption of corporate governance practices and policies that are appropriate to the needs of the Company given its size, complexity and ownership structure and the skills of Directors and managers and the geographic locality of the Company's mining exploration concessions.

The table below summarises the "best practice" recommendations and the Company's current practice, including explanations in the instances where the Company does not comply.

<b>Recommendation</b>	<b>South American Iron &amp; Steel's current position</b>
1.1 Establish and disclose the functions reserved to the Board and those delegated to management	Given the present size of the Company, the Board takes an active role in overseeing management functions and responsibilities. The Board is responsible for: <ul style="list-style-type: none"><li>▪ overseeing the performance and activities of the Company through agreed goals and strategy;</li><li>▪ assessing performance against Board approved budgets, targets and strategies;</li><li>▪ overseeing the management of the Company's business;</li><li>▪ overseeing appropriate controls, systems and procedures within the Company to manage the risks of its businesses and compliance with all regulatory and prudential requirements including, without limitation, occupational health and environmental issues;</li><li>▪ reviewing matters of general corporate governance;</li><li>▪ appointing and removing the Managing Director;</li></ul>

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- ratifying the appointment and, where appropriate, the removal of the Company Secretary;
- monitoring senior Management's performance and implementation of the Board approved strategies, and ensuring appropriate succession planning is in place;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- approving and monitoring material financial and other reporting; and
- setting delegated spending limits.

The day to day management is delegated to the Managing Director and the Company's management team.

- |     |  |   |
|-----|--|---|
| 1.2 | Disclose the process for evaluating performance of senior executives.                                      | The performance of senior executives is reviewed annually by the Managing Director who reports the results of the review to the Board.  |
| 1.3 | Report on recommendation 1   | Please refer to the Corporate Governance Statements, Policies and Procedures adopted by the Company, details of which are set out in the Company's website.   |
| 2.1 | A majority of the Board should be independent Directors  | The Board consists of four independent and Non-Executive Directors; and one Executive Director (Chief Executive Officer).   |
| 2.2 | The chair should be an independent Director  | The Company's chairperson, Mr Terry Cuthbertson, is an independent Director.  |
| 2.3 | The roles of the chair and chief executive officer should not be exercised by the same individual          | The Company's chief executive officer is Mr Kenneth Lee who is not the chairperson.   |
| 2.4 | The Board should establish a nomination committee  | The Board has not established a nomination committee as, due to the Company's size and its operations, the Board considers a separately established committee is not warranted and its functions and responsibilities can be adequately and efficiently discharged by the Board as a whole. |
| 2.5 | Disclose the process for evaluating the performance of the Board, its committees and individual Directors. | The Board has not established and at this stage, does not intend to establish a Nomination and Remuneration Committee, due to the Company's current size and its operations.  |
| 2.6 | Report on recommendation 2   | The details of the Directors, their experience, qualifications, term of office, and independent status are set out in the Company's Annual Report.  |

**and Controlled Entities**

There is a procedure agreed by the Board for Directors to take independent professional advice at the expense of the Company.

Other reporting requirements pertaining to recommendation 2 can be found in the Corporate Governance Statements, Policies and Procedures adopted by the Company, details of which are set out in the Company's website.

3.1 Establish a code of conduct and disclose the code or a summary of the code as to:

- practices necessary to maintain confidence in the Company's integrity
- practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Board recognises there is a need for a "code of conduct" and expects that the actions of its staff reflect the ethical standards of the Company. Accordingly, the Board has established an appropriate policy.

In summary, staff members are under an obligation to the Company not to place themselves or allow themselves to be placed directly or indirectly in a position where their private interests conflict or could conflict with their responsibilities to the Company. They may not use their positions, the Company's assets or confidential information gained in connection with their employment for personal gain or for the benefit of a family member or any outside party.

3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.

The Company intends to make each staff appointment after consideration of each candidate's qualifications, experience and proven competence, whilst conscientiously avoiding any discrimination on the basis of, but not limited to, race, creed, colour, gender, age, marital status, religion or physical impairment.

3.3 Companies should disclose in each annual report the measurable objectives for achieving gender

The Company does not have a formal policy concerning diversity. Given the small size of the Company's workforce, the Board has determined that it is not currently practicable to implement a policy concerning diversity. The Board will further consider the establishment of a diversity policy as the

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- |     |   |  |
|-----|---|--|
|     | diversity set by the board in accordance with the diversity policy and progress towards achieving them.   | Company grows.   |
| 3.4 | Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.  | The Company has one woman employee. There are two employees at the company at year end. There are no women in senior executive positions or on the board.  |
| 3.5 | Reporting on Recommendations 3  | Details of the code of conduct and trading policy are set out in the Company's website.  |
| 4.1 | The Board should establish an audit committee   | The Board has established an Audit Committee.  |
| 4.2 | Structure the audit committee so that it consists of only non-executive Directors, a majority of independent Directors, an independent chairperson who is not chairperson of the Board and at least three members | The Audit Committee has three members; two of whom are Non-Executive Directors. The Chairman of the Committee is a Non-Executive Director. Due to the size of the Board an Executive Director currently forms part of this Committee and this will be reviewed in the future.  |
| 4.3 | Audit Committee to have a formal Charter  | At present, the Audit Committee does not have a formal charter and this will be reviewed in the future.  |
| 4.4 | Reporting on recommendation 4   | Given the Board as a whole fulfils the functions and responsibilities of an Audit Committee, the names and qualifications of each of the members of the Board, and details of attendance at Board meetings, are set out in the Company's annual report.  |
| 5.1 | Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that                           | <p>The Company is committed to fulfilling all legal, statutory and listing disclosure requirements. Written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, as well as to ensure accountability at a senior management level for that compliance have been established.</p> <p>In respect of its disclosure policy, at each of its meetings, the</p> |

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| compliance and disclose those policies or a summary of those policies  | Board discusses continuous disclosure issues as a standing item and a list of all recent Company announcements is presented.<br><br>The procedure adopted by the Company is essentially that any information which may need to be disclosed must be brought to the attention of the Chairman, who in consultation with the Board (where practicable) and any other appropriate personnel will consider the information and whether disclosure is required and prepare an appropriate announcement.   |
| 5.2 Reporting on recommendation 5  | Please refer to the Corporate Governance Statements, Policies and Procedures adopted by the Company, details of which are set out in the Company's website.  |
| 6.1 Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy | In so far as the Company is required to comply with ASX continuous disclosure requirements, the Managing Director (and, in the alternative, the Chairman) has been nominated as the responsible person. The Board reviews and approves all announcements to the ASX.   |
| 6.2 Reporting on recommendation 6  | Please refer to the Corporate Governance Statements, Policies and Procedures adopted by the Company, details of which are set out in the Company's website.  |
| 7.1 Establish policies for the oversight and management of material business risks and disclose a summary of those policies.   | <p>The Board has not established and at this stage, does not intend to establish a Risk Management Committee, due to the Company's size and its operations.</p> <p>At present, the Board regularly reviews the Company's risk management systems and control frameworks, and the effectiveness of their implementation and is in the process of formally establishing a policy for adoption.</p> <p>The Company's reports in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. The CFO is also required to report that this statement so made is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.</p> |
| 7.2 The Board should require management to design and  | The Company's CEO and the CFO report in writing to the Board that the statement given is founded on a sound system of risk management and internal compliance and control  |

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| <p>implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.</p>   | <p>which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.</p>  |
| <p>7.3 The Board should disclose whether it has received assurance from the CEO (or equivalent) and the CFO (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.</p> | <p>The Board has received written assurance from the CEO and the CFO that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.</p> |
| <p>7.4 Reporting on recommendation 7</p>   | <p>The Company has provided relevant information in this Statement upon recognising and managing risk.</p>  |
| <p>8.1 The Board should establish a remuneration committee</p>   | <p>Given the present size of the Company, the Board as a whole presently meets to consider remuneration issues and will review the need for a remuneration committee as the Company grows.</p>  |
| <p>8.2 The remuneration committee should be structured so that it:</p> <ul style="list-style-type: none"><li>▪ consists of a majority of independent directors</li><li>▪ is chaired by an</li></ul>  | <p>Please refer above comments.</p>   |

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- independent director
  - has at least three members.
  
- 8.3 Clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives  
Non-executive Directors will be remunerated by cash benefits alone, except where approved by a general meeting of shareholders and will not be provided with retirement benefits (except in exceptional circumstances) and aggregate remuneration will not exceed the amount approved by shareholders (currently \$250,000). Executive Directors may be remunerated by both fixed remuneration and equity performance based remuneration.
  
- 8.4 Report on recommendation 8  
Relevant information can be found in the Corporate Governance Statements, Policies and Procedures adopted by the Company, details of which are set out in the Company's website.

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As at 25 September 2014

**12.1 Substantial Shareholders**

Name	Number of Shares	Percentage of issued shares
SUPERIOR GRADE INVESTMENTS LIMITED	51,300,000	16.10%
MR FRANCO BELLI	39,200,000	12.30%
CITICORP NOMINEES PTY LIMITED	24,270,868	7.62%
MR ZI MU WANG	20,000,000	6.28%

**12.2 Distribution of Fully Paid Ordinary Shares**

(i) Distribution schedule of holdings		
1 – 1,000	836	
1,001 – 5,000	160	
5,001 – 10,000	106	
10,001 – 100,000	245	
100,001 and over	152	
Total number of holders	1,499	
	<b>No. of holders</b>	<b>No. of Shares</b>
(ii) Less than marketable parcel of 55,556 shares at \$0.009 per share on 25 September 2014.	1,292	6,867,017

**12.3 Twenty Largest Shareholders**

Rank	Name	Number of Shares	Percentage of Issued Shares
1	SUPERIOR GRADE INVESTMENTS LIMITED	51,300,000	16.10%
2	MR FRANCO STEPHEN BELLI	39,200,000	12.30%
3	CITICORP NOMINEES PTY LIMITED	24,270,868	7.62%
4	MR ZI MU WANG	20,000,000	6.28%
5	MS FENGHUA ZHANG	15,000,000	4.71%
6	SHAOBO LIN	12,195,122	3.83%
7	JIAN HU LIN	11,939,111	3.75%
8	PRIDE ANGEL INVESTMENTS LIMITED	11,200,000	3.52%
9	A & F SUPERANNUATION FUND PTY LTD	10,450,000	3.28%
10	ECOMETRIX PTY LTD	8,094,234	2.54%
11	ECOMETRIX PTY LTD	6,496,441	2.04%
12	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	6,405,150	2.01%
13	ALCARDO INVESTMENTS LIMITED	6,010,476	1.89%
14	GLADDEN TRADE LTD	5,881,097	1.85%
15	ASTRON LIMITED	3,872,500	1.22%
16	TWYNAM AGRICULTURAL GROUP PTY LTD	3,403,598	1.07%
17	MR PHILIP NATHAN ONEILE	3,270,000	1.03%
18	INTERSUISSE NOMINEES PTY LTD	2,981,843	0.94%
19	AGCENTRAL PTY LTD	2,675,711	0.84%
20	MR RICK SIEW	2,408,430	0.76%
		<b>247,054,581</b>	<b>77.54%</b>

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#### **12.4 Voting rights – ordinary shares**

On a show of hands, every member, present in person or by proxy, shall have one vote and upon a poll every member, present in person or by proxy, shall have one vote for each share.

#### **12.5 Summary of mining concessions**

##### **Quince Concessions**

The Group owns a 10% interest in the Quince concession.