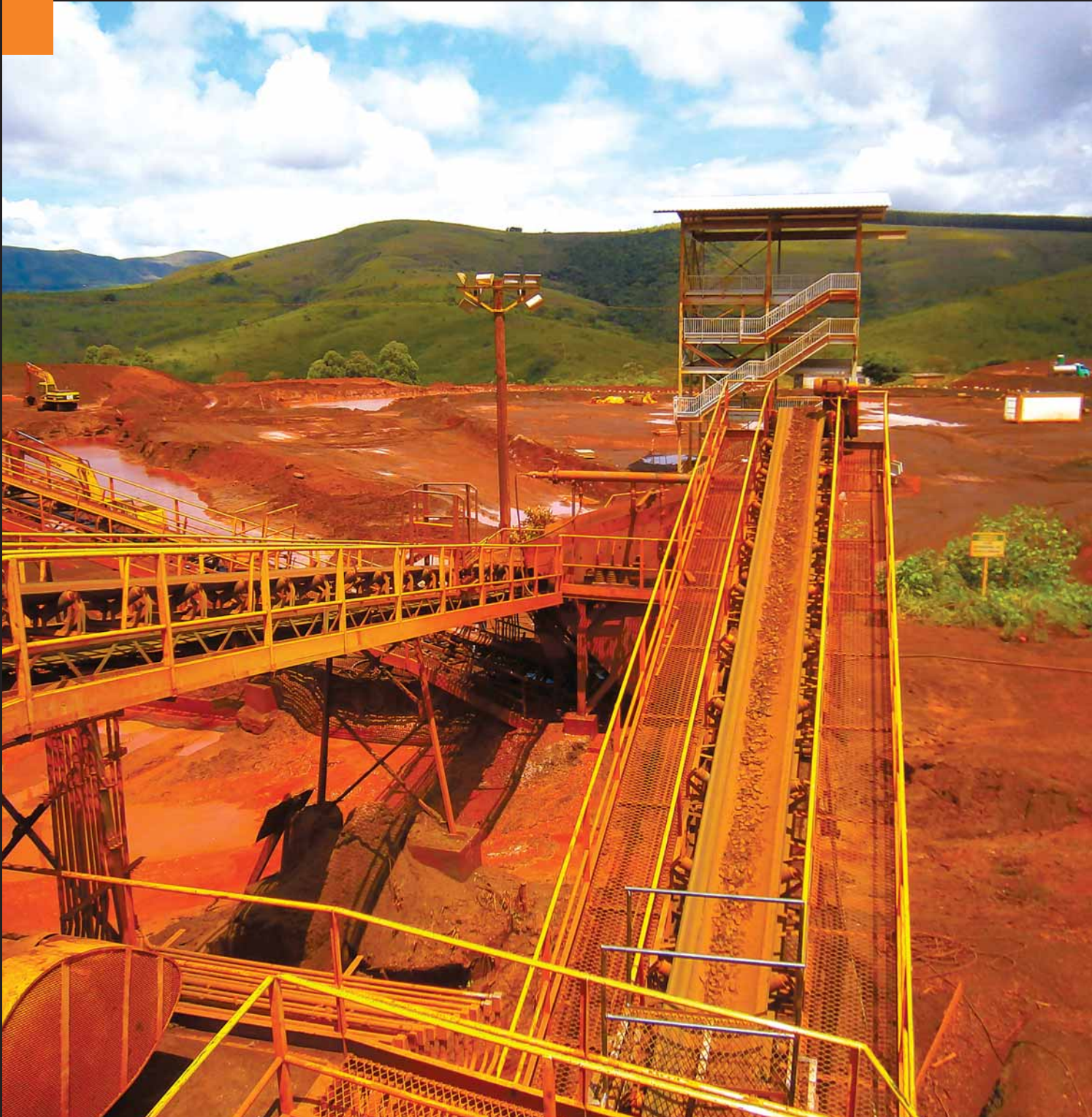


Interim Financial Report

For the 6 months ended 31 December 2011



CORPORATE DIRECTORY

South American Ferro Metals Limited
ABN 27 128 806 977

DIRECTORS

Terence Willsted (Chairman)
Philip Hopkins (Chief
Executive Officer)
Stephen Fabian
Stephen Turner
Philip Re
Paul Lloyd
Alan Doyle

COMPANY SECRETARY

Dion Cohen

REGISTERED OFFICE

Level 11
151 Macquarie Street
Sydney, NSW,
Australia, 2000
Telephone: +61 2 8298 2000
Facsimile: +61 2 8298 2028

BRAZIL OFFICE

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

PERTH OFFICE

8 Brodrick Street
Karrinyup, WA,
Australia, 6018
Telephone: +61 8 9243 5340
Facsimile: +61 2 8298 2020

SOLICITORS


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

BANKERS

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

AUDITORS

Grant Thornton Audit Pty Ltd
Level 17
383 Kent Street
Sydney, NSW,
Australia, 2000

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Directors' Report

Your Directors' submit the Interim Financial Report of the consolidated Group for the half-year ended 31 December 2011.

DIRECTORS

The names of the Company's Directors in office during the six months ended 31 December 2011 and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

Name	Position	Date of appointment
Terence Willstead	Chairman	12 November 2010
Philip Hopkins	Chief Executive Officer	16 November 2011
Stephen Fabian	Non-executive Director	12 November 2010
Stephen Turner	Non-executive Director	12 November 2010
Philip Re	Non-executive Director	6 December 2007
Paul Lloyd	Non-executive Director	19 June 2008
Alan Doyle	Non-executive Director	1 June 2011

REVIEW OF OPERATIONS

Set out below is a review of significant activity for South American Ferro Metals Limited ("SAFM") for the half year ended 31 December 2011.

OPERATIONAL UPDATE

Production continued to improve on a month-by-month basis following the introduction of a third shift at Ponto Verde in September 2011. Prudent production management led to a change in the mix of products during the period, with the production of Lump reduced and output of Sinter Feed increased in response to a slowdown in demand in the local Lump market.

In December 2011, production output was materially affected by wet weather. The "one-in-100-year" rain event in Minas Gerais resulted in less than 50% of planned iron ore production from the region overall. Despite the severe weather conditions, Ponto Verde was still able to achieve 55% of its planned plant throughput over this period.

Production during the period totaled 618,877 tonnes of Run of Mine ("ROM") and 231,803 tonnes of Beneficiated product, broken down between 86,278 tonnes of Lump and 145,525 tonnes of Sinter Feed.

Sales over the period comprised of 77,746 tonnes of Lump and 175,713 tonnes of Sinter Feed to local Pig Iron producers. In addition, the Company sold its excess undersize and ROM stocks in December 2011, as well as completed its delivery of its ROM sale to LGA Mineracao e Siderurgia LTDA ("LGA") that was reported in the previous financial year.

EXPLORATION ACTIVITIES

The exploration activity over the period can be summarized as follows:

Ponto Verde Project

During the period, SAFM completed Phase I of its Resource Definition Programme, confirming a maiden JORC-compliant resource of 230.6 million tonnes at 44.52% Fe, broken down between an Indicated Resource of 60 million tonnes at 41.61% Fe and an Inferred Resource of 170 million tonnes at 45.55% Fe. The details of the Resource are set out in the ASX announcement dated 23 December 2011. This maiden JORC resource will help to underpin SAFM's strategy to expand processing at Ponto Verde to 6-10 million tonnes a year for more than 20 years.

Three Sisters Project

The Board of Directors conducted a detailed review of its exploration leases in central Queensland, known as the Three Sisters project. After careful consideration of the carrying value associated with the project, including the future management focus and the annual evaluation and development activity required to maintain its licenses, it was decided that the project was not of a significant commercial benefit to the Group and resolved to relinquish these tenements.

SAFM is currently undertaking steps to surrender these exploration permits.

Directors' Report continued

CONCENTRATOR

The construction of the Concentrator was approved by the Board on 22 July 2011. The Concentrator will treat the fines from the ore processing, crushing and screening plant as well as the non-saleable fines material, stockpiled at Ponto Verde, with an expected capacity of 210,000 tonnes per annum.

Construction work on the Concentrator continued on schedule during the period, until the Ponto Verde site experienced heavy rains in December 2011. As a result of the heavy rains and restrictions on local staff working on site during bad weather, construction of the project was delayed during December 2011, with full Concentrator production now scheduled for April 2012, a month later than previously forecast.

RESULTS OF OPERATIONS

SAFM has reported a net loss before taxation of \$99,529 for the six month period ended 31 December 2011 (2010: Loss of \$5,583,837), on a reported net turnover of \$8,096,467 (2010: \$2,416,878).

The Company incurred the following non-recurring costs for the period under review, which can be explained as follows:

- The Three Sisters project, representing capitalised expenditure, was recorded in the accounts at 30 June 2011 at \$689,709. As referred to above, the Board of Directors resolved to relinquish these exploration rights which resulted in the write-off of this balance; and
- The value of the Share Options issued to Directors and Management in February 2011 and May 2011 were amortised over the period in which the milestones were expected to be reached. The vesting conditions were achieved ahead of schedule, and the remaining non-amortised value has been accelerated. This resulted in an accelerated share option expense of \$221,986 in December 2011, with the remaining balance of \$54,095 to be amortised by FY 2014.

The Loss before Interest, Depreciation and Amortisation for the period was \$177,034 (December 2010: \$182,021). Excluding the non-recurring items above, the Earnings before Interest, Depreciation and Amortisation ("EBITDA") for the period would have been \$734,661.

Net cash generated from operations over the 6 months ended 31 December 2011 was \$2.36 million, exploration expenditure and capital expenditure expended over the period amounted to \$1.01 million and \$0.89 million, respectively. Based on the above, cash on hand of

\$7,533,117 at 31 December 2011 remained largely unchanged over the period.

CAPITAL STRUCTURE

During the period under review, the milestones relating to the conversion of the Class B and Class C performance shares under the Share Sale agreement were met. This resulted in the conversion of 83,977,967 Class C Performance Shares and 83,977,967 Class B Performance Shares into 167,955,934 ordinary shares with effect from 27 October 2011 and 28 December 2011, respectively.

A total number of 409,147,683 ordinary shares were in issue at 31 December 2011. As at 31 December 2011, all the Performance Shares have been converted to ordinary shares.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than the activities described in the Directors' report above there were no other significant changes in the state of affairs of the Company for the six months ended 31 December 2011.

AFTER BALANCE DATE EVENTS

There were no significant events after balance sheet date.

GOING CONCERN

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

AUDITOR'S INDEPENDENCE DECLARATION

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

ROUNDING

The Company has applied the relief available to it in ASIC Class Order 98/100 and accordingly certain amounts in the financial report and the Directors' report have been rounded off to the nearest \$1000.

Signed in accordance with a resolution of the Directors.



Philip Hopkins
Chief Executive Officer

Sydney, 23 February 2012

Auditor's Independence Declaration



Grant Thornton Audit Pty Ltd
ACN 130 913 594

Level 17, 383 Kent Street
Sydney NSW 2000
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of South American Ferro Metals Limited for the half-year ended 31 December 2011, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in blue ink that reads "Grant Thornton".

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in blue ink, appearing to be "A G Rigele".

A G Rigele
Partner - Audit & Assurance

Sydney, 23 February 2012

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Consolidated Income Statement for the half-year ended 31 December 2011

CONSOLIDATED			
	Note	31 Dec 2011 \$'000	31 Dec 2010 \$'000
Sales revenue	3	8,096	2,417
Cost of goods sold		(4,906)	–
Gross profit		3,190	2,417
OTHER INCOME / EXPENSES			
Finance income		218	174
Other income		3	–
Foreign exchange loss		–	(13)
Administrative and other expenses	4	(2,463)	(2,324)
Impairment of non-current assets		(690)	(5,614)
Share based payment expense		(356)	–
Finance costs		(1)	(223)
Loss before taxation		(99)	(5,583)
Taxation expense		(646)	–
Loss after taxation for the period		(745)	(5,583)
Loss per share (cents per share)	5		
– basic loss per share		(0.28)	(5.21)
– diluted loss per share		(0.28)	(5.21)

These Interim Financial Statements should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income for the half-year ended 31 December 2011

	CONSOLIDATED	
	31 Dec 2011 \$'000	31 Dec 2010 \$'000
Loss after taxation for the period	(745)	(5,583)
Exchange differences on translating foreign controlled entities	(1,800)	(838)
Total comprehensive loss for the period, net of tax	(2,545)	(6,421)
Attributable to:		
Members of the parent entity	(2,545)	(6,421)
	(2,545)	(6,421)

These Interim Financial Statements should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position at 31 December 2011

CONSOLIDATED			
	Note	31 Dec 2011 \$'000	30 June 2011 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		7,533	7,582
Trade and other receivables		1,528	2,080
Prepayments		156	32
Inventories		79	1,273
Total current assets		9,296	10,967
Non-current assets			
Exploration and evaluation assets	7	1,506	1,187
Property, plant & equipment	8	3,221	2,771
Mining properties	9	10,897	12,519
Deferred tax asset		584	895
Other non-current assets		236	87
Total non-current assets		16,444	17,459
Total assets		25,740	28,426
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables		1,549	944
Current tax liabilities		539	916
Interest-bearing loans and borrowings		46	4
Provisions	10	218	416
Total current liabilities		2,352	2,280
Non-current liabilities			
Provisions	10	4,756	5,325
Total non-current liabilities		4,756	5,325
Total liabilities		7,108	7,605
Net assets		18,632	20,821
SHAREHOLDERS' EQUITY			
Contributed equity		48,312	48,312
Share-based payment reserve	11	1,353	997
Foreign currency translation reserve		(3,718)	(1,918)
Accumulated losses		(27,315)	(26,570)
Total shareholders' equity		18,632	20,821

These Interim Financial Statements should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity for the half-year ended 31 December 2011

	Contributed Equity \$'000	Share Based payment reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Total Equity \$'000
At 1 July 2010	25,235	-	(1,390)	(18,835)	5,010
Loss for the period	-	-	(838)	(5,583)	(6,421)
EQUITY TRANSACTIONS WITH OWNERS					
Issue of ordinary shares	15,000	-	-	-	15,000
Share issue costs	(1,002)	-	-	-	(1,002)
Reverse acquisition equity issued	9,079	-	-	-	9,079
At 31 December 2010	48,312	-	(2,228)	(24,418)	21,666
At 1 July 2011	48,312	997	(1,918)	(26,570)	20,821
Loss for the period	-	-	-	(745)	(745)
Other comprehensive income	-	-	(1,800)	-	(1,800)
Total comprehensive income for the period	-	-	(1,800)	(745)	(2,545)
EQUITY TRANSACTIONS WITH OWNERS	-	-	-	-	-
Share options expensed	-	356	-	-	356
At 31 December 2011	48,312	1,353	(3,718)	(27,315)	18,632

These Interim Financial Statements should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows for the half-year ended 31 December 2011

	CONSOLIDATED	
	31 Dec 2011 \$'000	31 Dec 2010 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	8,867	2,417
Payments and advances to suppliers and employees (exclusive of GST and ICMS)	(6,711)	(8,221)
Interest received	206	174
Interest paid	(1)	(223)
Net cash utilised in operating activities	2,361	(5,853)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant & equipment	(891)	(19)
Payments for exploration assets	(1,009)	–
Payments in respect of rehabilitation and royalty provisions	(147)	–
Net cash utilised in investing activities	(2,047)	(19)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issues of shares	–	15,000
Proceeds from borrowings	42	8
Repayment of borrowings	–	(860)
Repayment of shareholders' loan	–	(1,131)
Payment of share issue costs	–	(1,002)
Net cash utilised in financing activities	42	12,015
Net increase / (decrease) in cash held	356	6,143
Cash acquired from acquisition	–	2,106
Cash at the beginning of the financial period	7,582	1,283
Effects of exchange rates on cash holdings in foreign currencies	(405)	516
Cash and cash equivalents at the end of the period	7,533	10,048

These Interim Financial Statements should be read in conjunction with the accompanying notes.

Notes to the Interim Financial Statements for the half-year ended 31 December 2011

1. CORPORATE INFORMATION

This interim report covers South American Ferro Metals Limited ("SAFM" or the "Company" or the "Group") and the entities it controlled at the end of, or during, the six months ended 31 December 2011. The presentation currency of the Group is Australian Dollars ("A\$").

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

A description of the Group's operations and of its principal activities are included in the review of operations and activities in the Directors' report on page 1. The Directors' report is not part of the financial statements.

2. ACCOUNTING POLICIES

(a) Basis of preparation

The general purpose Interim Financial Statements for the half year ended 31 December 2011 has been prepared in accordance with AASB 134 Interim Financial Reporting and the requirements of the Corporations Act 2001.

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and investing and financing activities of the consolidated entity as the full financial report.

It is recommended that the half year financial report be read in conjunction with the annual report for the year ended 30 June 2011 and considered together with any public announcements made by SAFM during the half year ended 31 December 2011 in accordance with the continuous disclosure obligations of the ASX listing rules.

The Interim Financial Statements have been approved and authorised for issue by the Board of Directors on 23 February 2012.

(b) Basis of consolidation

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

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

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

(c) Accounting policies, standards and interpretations

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

The accounting policies adopted are consistent with IFRS, Australian Accounting Standards and AASB interpretations.

The Interim Financial Statements have been prepared in accordance with the accounting policies adopted in the Group's last annual financial statements for the year ended 30 June 2011, except for the adoption of Improvements to AASB's 2010 (2010 Improvements) as of 1 January 2011. The 2010 Improvements made several minor amendments to AASB's. The relevant amendments and their effects on the current period or prior period are described below.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these Interim Financial Statements.

Amendments to AASB 134 Interim Financial Reporting

The amendments clarified certain disclosures relating to events and transactions that are significant to an understanding of changes in the Group's circumstances since the last Annual Financial Statements. The Group's Interim Financial Statements as at 31 December 2011 reflect these amended disclosure requirements, where applicable.

(d) Estimates

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

The judgements, estimates and assumptions applied in the Interim Financial Statements, including the key sources of estimation uncertainty were the same as those applied in the group's last Annual Financial Statements for the year ended 30 June 2011. The only exceptions are:

Notes to the Interim Financial Statements for the half-year ended 31 December 2011 continued

2. ACCOUNTING POLICIES (CONTINUED)

(d) Estimates (continued)

- I. The estimate of the provision for income taxes which is determined in the Interim Financial Statements using the estimated average annual effective income tax rate applied to the pre-tax income of the interim period; and
- II. On 23 December 2011, Phase I of the Resource Definition Programme was completed, increasing management's previous estimate of resource reserves. The impact of this increase in reserves on the estimates of the life of mine, mining property assets, restoration and decommissioning costs will be assessed by management, utilising the results of a Bankable Feasibility Study, which is expected to be completed by June 2012.

3. SALES REVENUE

	31 Dec 2011 \$'000	31 Dec 2010 \$'000
Net sales revenue	8,096	2,417

4. ADMINISTRATIVE AND OTHER EXPENSES

	31 Dec 2011 \$'000	31 Dec 2010 \$'000
Accounting fees	124	43
Auditors' remuneration	53	17
Consulting fees	260	432
Depreciation of office equipment	5	95
Employment costs	673	302
Rent	104	66
Legal fees	26	85
Travel and accommodation	169	196
Write-down of Finished Stock	473	-
Other administrative expenses	576	1,088
	2,463	2,324

5. LOSS PER SHARE

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

	31 Dec 2011 \$'000	31 Dec 2010 \$'000
Basic loss per share (cents per share)	(0.28)	(5.21)
Diluted loss per share (cents per share)	(0.28)	(5.21)
Net loss attributable to ordinary shareholders (\$'000)	(745)	(5,584)

	31 Dec 2011 \$'000	31 Dec 2010 \$'000
Weighted average number of ordinary shares used in the calculation of basic loss and diluted loss per share	269,184	108,390
Number of potential ordinary shares in issue. Due to the reported loss per share, these additional shares are not dilutive and hence have not been incorporated in the calculation of diluted EPS	293,740	121,584
Total number of ordinary shares in issue.	409,148	157,213

6. DIVIDENDS

The Board of Directors resolved not to declare an interim dividend for the period ended 31 December 2011.

7. EXPLORATION AND EVALUATION ASSETS

	31 Dec 2011 \$'000	30 June 2011 \$'000
Opening balance	1,187	–
Exploration expenditure capitalised:		
Exploration and evaluation phases (a)	3	686
Production phases (b)	–	507
Resource Drilling Programme	1,009	–
Less:		
Amortisation	(4)	(6)
Impairment (a)	(689)	–
Closing balance	1,506	1,187

(a) Exploration and evaluation phase impairment relates to the Three Sisters Project. The Board of Directors assessed the development of the Three Sisters Project and resolved to relinquish the tenements on 19 December 2011. The relinquishment of the Project resulted in a write off of the Project totalling \$689,909.

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

8. PROPERTY, PLANT & EQUIPMENT

Consolidated	Cost \$'000	Accumulated depreciation \$'000	Carrying Value \$'000
31 December 2011			
Decommissioning asset (a)	1,842	(27)	1,815
Plant	340	(29)	311
Furniture & Fittings	144	(6)	138
Computer equipment	39	(13)	26
Motor Vehicles	167	(29)	138
Machinery and equipment	107	(12)	95
Software	13	(6)	7
Buildings	51	(4)	47
Work in progress	644	–	644
	3,347	(126)	3,221

Consolidated	Opening carrying value (1 July 2011) \$'000	Foreign translation currency reserve \$'000	Disposals \$'000	Additions \$'000	Depreciation (capitalised in Inventory) \$'000	Closing carrying value (31 Dec 2011) \$'000
31 December 2011						
Decommissioning asset (a)	2,086	(262)	–	–	(9)	1,815
Plant	342	(46)	–	27	(12)	311
Furniture & Fittings	70	(8)	–	82	(6)	138
Computer equipment	30	(3)	–	3	(4)	26
Motor Vehicles	33	(4)	–	118	(9)	138
Machinery and Equipment	114	(14)	–	2	(7)	95
Software	10	(2)	–	–	(1)	7
Buildings	40	(5)	–	14	(2)	47
Work in progress	46	(46)	–	644	–	644
	2,771	(390)	–	890	(50)	3,221

Notes to the Interim Financial Statements for the half-year ended 31 December 2011 continued

8. PROPERTY, PLANT & EQUIPMENT (CONTINUED)

Consolidated	Cost \$'000	Accumulated depreciation \$'000	Carrying Value \$'000
31 December 2010			
Decommissioning asset (a)	1,912	(8)	1,904
Plant and equipment	342	–	342
Furniture & Fittings	2	(1)	1
Computer equipment	26	(11)	15
Motor Vehicles	55	(17)	38
	2,337	(37)	2,300

Consolidated	Opening carrying value (1 July 2010) \$'000	Foreign translation currency reserve \$'000	Disposals \$'000	Additions \$'000	Depreciation \$'000	Closing carrying value (31 Dec 2010) \$'000
31 December 2010						
Decommissioning asset (a)	–	–	–	1,912	(8)	1,904
Plant and equipment	377	(36)	–	1	–	342
Furniture & Fittings	2	–	–	–	(1)	1
Computer equipment	15	(1)	–	3	(2)	15
Motor Vehicles	31	(2)	–	14	(5)	38
	425	(39)	–	1,930	(16)	2,300

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

Consolidated	Opening carrying value (1 July 2010) \$'000	Foreign currency translation reserve \$'000	Disposals \$'000	Additions \$'000	Depreciation \$'000	Closing carrying value (30 June 2011) \$'000
30 June 2011						
Decommissioning asset (a)	–	–	–	2,103	(17)	2,086
Plant	332	(26)	–	51	(15)	342
Furniture and Fittings	2	–	–	69	(1)	70
Computer equipment	10	–	–	25	(5)	30
Motor vehicles	31	(3)	–	15	(10)	33
Machinery and Equipment	1	–	–	119	(6)	114
Software	5	–	–	7	(2)	10
Buildings	45	(4)	–	1	(2)	40
Work in progress	–	–	–	46	–	46
	426	(33)	–	2,436	(58)	2,771

8. PROPERTY, PLANT & EQUIPMENT (CONTINUED)

a) The provision for decommissioning and restoration represents management's estimate of the restoration and closure costs associated with the operation. The restoration and decommissioning costs are capitalised as a fixed asset and amortised over the rate of ROM production. It is expected that these costs will be incurred at the end of the life of the plant and operations.

The provision has been calculated by estimating the costs of the rehabilitation and restoration, extrapolating the estimates to the end of the estimated life of the project by applying an inflation rate of 5.91% and then discounting this estimated amount to a present value, using a pre-tax discount of 9% per annum.

9. MINING PROPERTIES

Consolidated		Cost	Accumulated	Carrying
31 December 2011		\$'000	Amortisation	Value
			\$'000	\$'000
Surface rights (a)		2,625	(40)	2,585
Mineral rights (a)		8,439	(127)	8,312
		11,064	(167)	10,897

Consolidated	Opening	Foreign			Amortisation	Closing
31 December 2011	carrying value	translation	Disposals	Additions	(capitalised in	Carrying
	(1 July 2011)	currency	\$'000	\$'000	the cost of	Value
	\$'000	reserve			inventory)	(31 Dec 2011)
		\$'000			\$'000	\$'000
Surface rights	2,970	(372)	–	–	(13)	2,585
Mineral rights	9,549	(1,196)	–	–	(41)	8,312
	12,519	(1,568)	–	–	(54)	10,897

Consolidated		Cost	Accumulated	Carrying
31 December 2010		\$'000	Amortisation	Value
			\$'000	\$'000
Surface rights		2,934	(20)	2,914
Mineral rights		9,433	(64)	9,369
		12,367	(84)	12,283

Consolidated	Opening	Foreign			Amortisation	Closing
31 December 2010	carrying value	translation	Disposals	Additions	(31 Dec 2010)	Carrying
	(1 July 2010)	currency	\$'000	\$'000	\$'000	Value
	\$'000	reserve				(31 Dec 2010)
		\$'000				\$'000
Surface rights	3,246	(311)	–	–	(21)	2,914
Mineral rights	10,436	(1,000)	–	–	(67)	9,369
	13,682	(1,311)	–	–	(88)	12,283

Notes to the Interim Financial Statements for the half-year ended 31 December 2011 continued

9. MINING PROPERTIES (CONTINUED)

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

Consolidated	Opening carrying value (1 July 2011) \$'000	Foreign translation currency reserve \$'000	Disposals \$'000	Additions \$'000	Amortisation (capitalised in the cost of inventory) \$'000	Closing Carrying Value (30 June 2011) \$'000
30 June 2011						
Surface rights	3,246	(250)	–	–	(26)	2,970
Mineral rights	10,436	(802)	–	–	(85)	9,549
	13,682	(1,052)	–	–	(111)	12,519

a) The amortisation of the Mineral and Surface rights is based on the rate of ROM production at the mine from its commencement date being 19 October 2010.

10. PROVISIONS

	31 Dec 2011 \$'000	30 June 2011 \$'000
Current provisions		
Employee benefits	84	108
Environmental provision	134	308
	218	416
Non-current provisions		
Royalty payment provision	123	37
Surface right payment provision	2,625	2,996
Rehabilitation provision (Refer to note 8a)	2,008	2,292
	4,756	5,325

11 . SHARE-BASED PAYMENT RESERVE

	31 Dec 2011 \$'000	30 June 2011 \$'000
Opening balance	997	–
Share based payment expense	356	997
Closing balance	1,353	997

During the period under review, the vesting conditions for the following share options were met:

- Tranche Two of the Directors' and Officers' share options, totaling 6,500,000 share options, that were issued on 24 February 2011;
- Tranche Three of the Directors' and Officers' share options, totaling 6,500,000 share options, that were issued in 24 February 2011; and
- Tranche One of Mr. Hopkins' share options totaling 3,333,333 share options, that were issued on 9 May 2011.

11 . SHARE-BASED PAYMENT RESERVE (CONTINUED)

All the Directors' and Officers' share options, except for 6,666,667 share options relating to Tranche Two and Three granted to Mr. Hopkins have vested at 31 December 2011.

All of the above share options are subject to the satisfaction of the exercise condition, being the volume weighted average price of the Company's shares traded on the Australian Securities Exchange ("ASX") for the five days prior to exercise, is equal to or greater than \$0.50 per share.

12. OPERATING SEGMENTS

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

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

13. RELATED PARTY TRANSACTIONS

Subsidiaries:

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

	Country of incorporation	% OF EQUITY INTEREST		INVESTMENT	
		31 Dec 2011	30 June 2011	31 Dec 2011 \$'000	30 June 2011 \$'000
South American Ferro Metals Limited	British Virgin Islands	100%	100%	33,591	33,591
SAFM Mineracao LTDA	Brazil	100%	100%	19,269	19,269

Related party transactions exist between the companies within the Group.

Key Management Personnel

The Directors' remuneration and Chief Executive Officer's salary for the six month ended 31 December 2011 amounted to \$436,715. (2010: \$302,577)

14. CAPITAL COMMITMENTS

The capital commitments at 31 December 2011 are as follows:

	31 Dec 2011 \$'000	30 June 2011 \$'000
Contracted for	906	883
Authorised but not contracted for	1,141	–
	2,047	883

Contractual obligations relate mainly to the capital expenditure required to complete the construction of the concentrator.

15. CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets and liabilities as at 31 December 2011 (30 June 2011: nil)

16. EVENTS AFTER THE END OF REPORTING PERIOD

There were no significant events after 31 December 2011.

Directors' Declaration for the half-year ended 31 December 2011

In the opinion of the directors of South American Ferro Metals Limited

- (a) the financial statements and notes as set out on pages 4 to 15 are in accordance with the Corporations Act 2001, including:
- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half year ended on that date; and
 - (ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting.
- (b) there are reasonable grounds to believe that the Company and Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Philip Hopkins
Chief Executive Officer

Sydney, 23 February 2012

Independent Auditor's Review Report for the half-year ended 31 December 2011



Grant Thornton Audit Pty Ltd
ACN 130 913 594

Level 17, 383 Kent Street
Sydney NSW 2000
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

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

We have reviewed the accompanying half-year financial report of South American Ferro Metals Limited ("Company"), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the

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Independent Auditor's Review Report for the half-year ended 31 December 2011 continued



auditor of South American Ferro Metals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

Conclusion

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

- a giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

A handwritten signature in blue ink that reads "Grant Thornton".

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in blue ink, appearing to be "A G Rigele".

A G Rigele
Partner - Audit & Assurance

Sydney, 23 February 2012



South American Ferro Metals Ltd
ACN 128 806 977