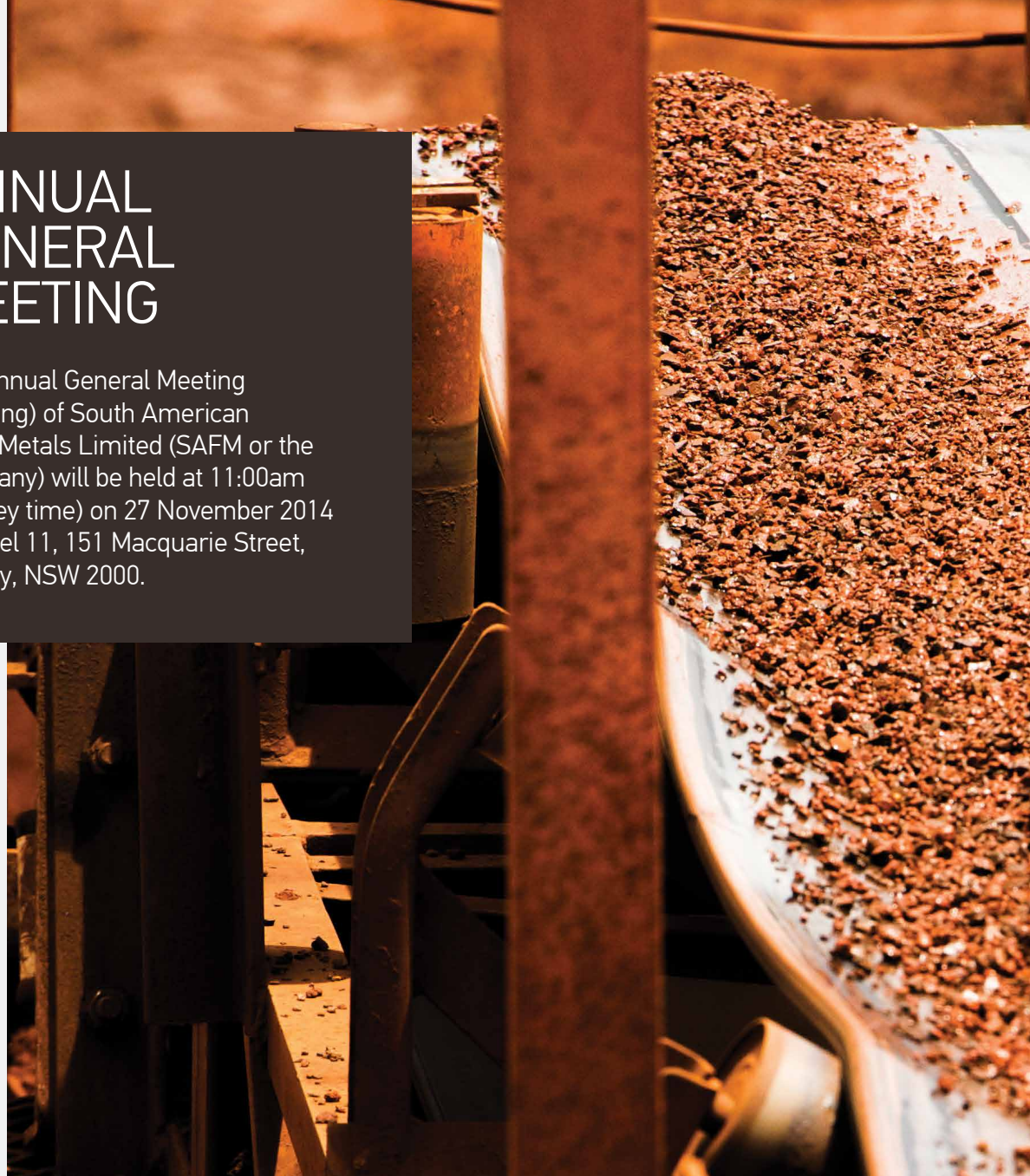






ANNUAL GENERAL MEETING

The Annual General Meeting (Meeting) of South American Ferro Metals Limited (SAFM or the Company) will be held at 11:00am (Sydney time) on 27 November 2014 at Level 11, 151 Macquarie Street, Sydney, NSW 2000.



SAFM AT A GLANCE

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

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

licencing process, the Company is pursuing a strategy to expand to 3 million tonnes ROM per annum with the intention of selling its entire production to the domestic iron ore market (Domestic Expansion). It is intended that the Company would proceed with its 8 Mtpa expansion once all licencing and permits have been received, which is expected to coincide with an upturn in the iron ore market.

SAFM has a JORC Resource at Ponto Verde of 403.71 million tonnes (Mt) at 40.36% Fe (which includes a Measured Resource of 83.82 Mt at 40.44% Fe, an Indicated Resource of 157.79 Mt at 41.01% Fe and an Inferred Resource of 162.10 Mt at 39.68% Fe).



DESCRIPTION OF OPERATIONS

PVM operates under a processing license of 1.5 Mtpa of Run-Of-Mine ("ROM"). Mining activities are conducted during normal business hours, whilst processing plants run on a 24 hour, seven days a week basis. Mining is a 'free dig' operation (ie. it does not require drilling or blasting) and utilises four excavators that feed ore to a fleet of 20 haul trucks. The strip ratios range between 0.22 and 0.46 (tonne of waste per tonne of ore) and averaged 0.34 per tonne over the financial year.

SAFM operates three fully integrated plants, comprising the Beneficiation, Concentrator One and Concentrator Two plants.

The Beneficiation Plant consists of a two-stage crushing circuit. Both stages include wet screening, which occurs in a closed circuit, to produce Lump (10mm – 28mm) and Sinter Feed (3mm – 10mm).

Concentrator One produces a high grade product through the recovery of waste below 3mm in size. The waste is fed directly from the Beneficiation plant into a two-drum medium-intensity wet magnetic separator. Additional feed is added via an external hopper and conveyor belt. During FY 2014, this plant produced over 193,000 tonnes of a 65% Fe high grade concentrate.

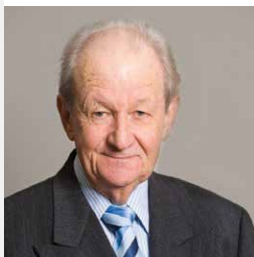
Concentrator Two processes the tailings from Concentrator One. With a higher recovering capacity, this plant produced over 168,000 tonnes of a high grade product in FY 2014, with similar characteristics to the Concentrate One product.

Ponto Verde Mine Product Range, Measurement and Product Size Quality comprise the following:

Product	Measurement	Quality
Lump	10mm – 28mm	58% – 60% Fe
Sinter Feed	3mm – 10mm	57% – 60% Fe
Concentrate	< 3mm	64.5% – 65% Fe

CONTENTS

- 02 Chairman's Report
- 03 Milestones Achieved
- 04 Managing Director's Report
- 08 Board of Directors and Key Management
- 10 Corporate Governance Statement



CHAIRMAN'S REPORT



Reviewing
FY2014, the
Company
increased
beneficiated
production
to 853,339
tonnes
(FY 2013:
626,134
tonnes)

Dear Shareholder

In the twelve months covered by this report, South American Ferro Metals has made significant progress in its Bankable Feasibility Study (BFS) for its expansion to 8 million tonnes per year (Mtpa), including increasing its JORC mineral resource from 301.06 at 40.65% Fe to 403.71 Mt at 40.36% Fe, acquiring a 100 hectare property south of its Ponto Verde Mine to be used for additional waste & tailings storage and entering into Memorandum of Understanding with owners of the property adjacent to its Ponto Verde Mine ("Mini-mines joint venture agreement").

Notwithstanding the achievements above, SAFM has encountered unexpected deferrals in obtaining its licence and ancillary logistics permits. The Company has responded by devising an alternative staged expansion plan which allows the Company to increase its production to 3 million tonnes per annum and thereby increase its profitability through a reduction of its unit cost of production.

During the year, SAFM experienced further setbacks due in part to disruption to its water system, and the falling iron ore price at the end of the financial year has significantly reduced cash flow. Over the page the Managing Director will discuss the factors affecting business performance in more detail, as well as the outlook for the current year.

Reviewing FY2014, the Company increased beneficiated production to 853,339 tonnes (FY 2013: 626,134 tonnes). EBITDA amounted to \$3.1 million and the loss after tax for the year was \$1.3 million.

The increase in costs of production to \$29.53 per tonne at 31 December 2013 represented the adverse impact of the water reticulation disruption. Management has rectified this problem and the Company has achieved significant cost reductions throughout the remainder of the financial year which is reflected in unit production cost of \$20.22 in July 2014.

Health and safety, as well as high standards of environmental performance continued this year. Again, it is pleasing that key measures of health and safety performance remain well in advance of industry averages. During the year, there was no lost-time-injury.

Governance matters, such as compliance, risk and remuneration, receive particular attention of the Directors. The Board is confident that the Company's remuneration policies and practices remain consistent with the attraction and retention of a high calibre workforce. The short and long term incentive arrangements remain aligned to the delivery of growth objectives and shareholder interests. The Remuneration section of the Annual Report provides a detailed explanation of FY 2014 remuneration practices and outcomes.

Returns to shareholders, in terms of share price performance are central given the Company's principal focus: to create and deliver value for shareholders. The Company's share price performance in FY 2014 was disappointing both in absolute and relative terms, but I am confident that the expansion of its production will deliver enhanced shareholder returns in the future.

The Board of SAFM has been strengthened during the year with Mr Rogerio Caporali joining the Board as a non-executive director. Mr Caporali has extensive experience in the management of large mines in Brazil, and has held numerous senior management positions with VALE Group over a period of 25 years.

SAFM's management team will, with confidence, continue to pursue operational excellence to achieve the production targets for Ponto Verde. We expect to further enhance future growth and value with expansion opportunities that are available due to the Company's operational and management performance.

I acknowledge and thank my fellow Directors for their professionalism and contribution during FY 2014. I would also like to acknowledge our management team for their efforts during a difficult year, as well as the wider employee workforce for their commitment and efforts.

The Directors acknowledge and appreciate the continuing support of shareholders in what has clearly been a difficult year for them.

Yours sincerely,

Terrence Willsteed
Chairman

MILESTONES ACHIEVED



SEPTEMBER 2010

Acquisition of 100% of the issued capital of SAFM in a reverse takeover by Riviera Resources Limited. The Company was renamed South American Ferro Metals Limited and listed on the ASX in November 2010.

NOVEMBER 2010

Commencement of production from Ponto Verde under SAFM ownership.

FEBRUARY 2011

Refurbishment of beneficiation plant and facilities completed and commissioning commenced.

MAY 2011

Move to two production shifts per day.

SEPTEMBER 2011

Move to three shifts per day, five days a week facilitating increase in production from Ponto Verde to licenced capacity of 1.5 Mtpa.

DECEMBER 2011

JORC Resource estimate of 230.6Mt at 44.52% Fe announced (including Indicated Resource of 60.6Mt at 41.61% Fe and an Inferred Resource of 170Mt at 45.55% Fe)



FEBRUARY 2012

Phase II of Resource Definition Programme commenced and Definitive Feasibility Study announced to expand Ponto Verde to capacity of 8Mtpa ROM throughput, from the current 1.5Mt licenced capacity and increase the resource base and resource confidence level under JORC.

JUNE 2012

Successful commissioning of the first stage of the concentrator at Ponto Verde and installation of cone crusher.

NOVEMBER 2012

Announcement of updated JORC Resource statement which increased the size of the Measured and Indicated components of the Resource from 60 Mts at 41.61% Fe to 167.5 Mt of 41.54% Fe.

APRIL 2013

Announcement of updated JORC Resource statement which increased the size of the Resource from 230.6Mt at 44.52% Fe to 301.06Mts of 40.65% Fe.

Execution of Memorandum of Understanding with rail corporation MRS Logistica SA to develop a rail based logistic solution for the port delivery for export of SAFM's future production.

On-site Laboratory Completed.



JUNE 2013

Commissioning of the Concentrator Two targeting additional concentrate production of between 20,000 and 24,000 tonnes per month at a grade of approximately 65% Fe.

JULY 2013

Securing a US\$15 million two year loan facility with Deutsche Bank.

OCTOBER 2013

Acquisition of waste and tailing property which is sufficient in size to hold waste and tailings for the expanded mine life.

MAY 2014

Securing an agreement with the State of Minas Gerais to deliver significant fiscal benefits and funding assistance for the development of its Ponto Verde expansion.

JULY 2014

Execution of Memorandum of Understanding with the owners of the property adjacent to its Ponto Verde Mine to allow mining on the eastern side.

SEPTEMBER 2014

Announcement of updated JORC Resource statement which increased the size of the Resource from 301.06 Mt at 40.65% Fe to 403.71 Mt at 40.36% Fe.

MANAGING DIRECTOR'S REPORT



It has been a challenging year for South American Ferro Metals (SAFM). The Company encountered operational issues during the last two calendar quarters of 2013 arising from problems with the water reticulation circuit. These were overcome in December 2013.

From May 2014 the decline in the global iron ore seaborne prices placed a further strain on profitability. These events have resulted in the Company reporting a net operating loss for the year ended 30 June 2014 (FY 2014)

Despite these challenges, SAFM has continued to progress its Ponto Verde Mine (PVM) expansion project. Milestones include increasing the resource from 301.06 million tonnes (Mt) to 403.71 Mt, entering a mining agreement with the adjacent property owner, the acquisition of land for waste and tailings, and entering into a memorandum of understanding with the State of Minas Gerais regarding fiscal benefits and finance assistance.

Applications for Environmental and Installation licenses were submitted to the relevant environmental and regulatory agencies in July 2013 to obtain permission to increase Run Of Mine (ROM) extraction and processing up to 8 Mt per annum. However, the granting of these licences has been delayed due to the State Government requiring a state wide review of native vegetation. Further delays have also been experienced in the ancillary logistic permit applications. These delays have deferred the Bankable Feasibility Study (BFS) completion date.

In response to these delays and the resulting deferral in the BFS completion date, SAFM has devised an alternative expansion plan to be executed in the short to medium term which capitalises on current trends and domestic market conditions. The Company has assessed an interim strategy to expand to 3 million tonnes ROM per annum, a lower target than the BFS, but one which would allow the Company to be quick to market, with the intention of selling its entire production to the domestic iron ore market (Domestic Expansion) where there is currently higher demand. This would eliminate the need for ancillary logistics permits and large capital investment in the short to medium term,

whilst making SAFM highly cash generative. It is intended that the Company would proceed with its 8 Mtpa expansion once all licencing and permits have been received, which is expected to coincide with an upturn in the iron ore market.

The year's main highlights can be summarised as follows:

OPERATIONAL OVERVIEW

During the first two quarters of FY2014, the Company confronted a number of operational impediments, caused by water reticulation problems at the plant. These difficulties resulted in lower production over this period, as well as an increase in unit production costs and lower sales prices due to off grade material produced over this period.

Ponto Verde Mine FY 2014 Production Summary

Total ore mined (ROM)	tonnes	1,521,484
Waste removed	tonnes	514,577
Stripping Ratio	(t/t)	0.34
ROM processed on site	tonnes	1,527,110
Plant availability	(%)	74%
Lump produced	tonnes	228,161
Sinter feed produced	tonnes	263,043
Concentrate produced	tonnes	362,135

In December 2013, under the guidance of SAFM's new Chief Operational Officer, the Company addressed its operational problems by introducing plant modifications which were accompanied by operational optimisations. These restored and enhanced production and product quality, whilst simultaneously establishing a comprehensive cost reduction programme.

The steps included:

- > enhancing safety practices,
- > cost awareness training,
- > amalgamation of the power generators on site,
- > water management improvements,
- > the introduction of new magnetic separators,



- > reduction in leased machinery; and
- > the re-design of maintenance procedures.

The above measures served to reduce unit production costs by 32% from \$29.53 per tonne in January 2014 to \$20.22 per tonne in July 2014. This significant reduction in cost has been critical in ensuring that SAFM maintains a positive gross profit margin in the face of the recent fall in iron ore prices.

Two concentrators operated throughout the period yielding beneficiated production of 853,339 tonnes for the year ended 30 June 2014, a 36% increase from the previous year and a record annual performance for the Company.

FINANCIAL PERFORMANCE

In line with production performance, sales volumes increased by 40% to 835,747 tonnes for the year ended 30 June 2014, translating to an increase in sales revenue from \$19.6 million in FY 2013 to \$29.2 million in FY 2014.

The Company's net profit before tax decreased from \$2.8 million in FY2013 to a net loss of \$69,000 in FY 2014. The decline in profit is primarily attributable to a 6.3% decrease in the weighted average net selling price, as well as the temporary production cost pressures experienced during the first two quarters of FY 2014, which resulted in an increase in costs of sales from \$20.52 per tonne in FY 2013 to \$27.73 in FY 2014. The decrease in average selling price coupled with the increase in unit production costs served to have a greater impact on gross profit than the favourable increase in sales volumes, thus generating a net loss for the year. Cash flow generated from operations amounted to \$1.4 million (FY 2013: \$2.2 million) and an EBITDA of \$3.1 million during FY2014 (FY2013: \$3.09 million). Capital expenditure totalled \$13.3 million (FY 2013: \$7.5 million), including a \$5.5 million land purchase and \$5.4 million BFS expenditure.

Looking ahead, the anticipated cost of production is extremely favourable. The implementation of the production cost programme which was completed in July 2014 has restored production costs to its FY2013 levels of \$20 per tonne. SAFM's main customers have expressed a willingness to acquire increasing levels of product in the short to medium terms. Management is focused on cost reduction and increasing mass

recovery. This, combined with the current devaluation of the Brazilian Real against the US dollar, is expected to increase the margin on SAFM's products.

Revenue and Profit	FY 2014	FY 2013
Sales volumes	835,747	598,202
Sales Revenue \$'000	29,205	19,591
EBITDA \$'000	3,069	3,091
EBIT \$'000	1,834	2,476
NPAT (Reported) \$'000	(1,288)	1,682
EPS (cents)	(0.31)	0.41

EXPANSION PROJECT

During FY 2014, SAFM continued to work with its advisers, Logicamm and Ausenco, on the BFS of its Ponto Verde Mine expansion. The BFS progressed substantially in both commercial and technical aspects. Most notably, the principal consultants and contractors met in April and May 2014 to collate their final studies, including geo-technical, mining and metallurgical assessments, as well as plant and infrastructure design. This milestone, together with the submission of license applications to the various government authorities in 2013, marked the completion of the analysis phase of the BFS. Other BFS milestones attained during the year ended 30 June 2014 are as follows:

Licensing

In July 2013, SAFM submitted its environmental and installation licence application to SUPRAM, the regulatory mining body in Minas Gerais. This license is required to increase the Company's annum production capacity from 1.5 million ROM tonnes to 8 million ROM tonnes. The approval process has been deferred due to a state-wide review of native flora and vegetation. This suspension of the process affects all projects in Brazil's iron ore quadrilateral. Management expects the licences to be granted by no later than 31 December 2014.

Land Acquisition

SAFM acquired a 100 hectare property in the south of its PVM site for R\$11 million (A\$5.5 million). The property will be used for

MANAGING DIRECTOR'S REPORT

CONTINUED

tailings and waste disposal to be generated from the expansion project. A technical and environmental study of the area confirmed that there are no restrictions or archaeological impediments which would limit the deposition of waste and tailings on the site. Furthermore, a detailed volume capacity ratio study concluded that the area would be sufficient in size for the entire mine life.

Government Funding Assistance

SAFM reached an agreement with the State of Minas Gerais to provide support and assistance in securing low cost financing for fixed investment and working capital from the state's development bank (BDMG). The agreement also delivers significant benefits for the advancement of the Ponto Verde expansion project, including fiscal concession through exemptions of ICMS, a sales tax levied by the State on all goods sold within or imported into the state. Perhaps most importantly, the state has agreed to use its best endeavours to assist SAFM's licensing process to facilitate a timely project delivery.

Agreement with Adjacent property owner

In July 2014, SAFM signed an important Memorandum of Understanding (MoU) with the owners of the property adjacent to its Ponto Verde Mine site. This arrangement is the first step towards an agreement that will allow the Company to mine the ore body located on the eastern side of its tenement in the property Sapecado Sul, contiguous with SAFM's mine. The MoU provides access to the property's drill hole survey data, which SAFM used to build a new and enlarged block model that will underpin the Company's expansion plans.

Increased Resource Base

During FY2014, SAFM increased its Ponto Verde JORC resource by 34% from 301.06 Mt to 403.71 Mt, including an increase in measured and indicated resources from 174.72 Mt at 40.84% Fe to 241.61Mt at 40.81% Fe, with a cut-off grade of 20% applied. This enlarged resource strengthens the Company's expansion strategy as Management is currently designing an open pit mine plan and establishing the mineable ore reserves.

The latest exploration drilling at an average depth of 70 meters has highlighted that mineralisation extends to over 350 meters. Based on this, SAFM will design a future exploration program to target the core of the deposit which has the potential to further increase the size of the deposit.

JORC Resource	Million Tonnes	Fe Content (%)
Total Resources	403.71	40.36
Measured Resources	83.82	40.44
Indicated Resources	157.79	41.01
Inferred Resources	162.10	39.68

Competent persons

Information in this statement that relates to the JORC resource at Ponto Verde is based on information compiled by Mr Bernardo Hurta de C Viana (Phase I) and Mr Porfirio Cabaleiro (Phase II) both of Coffey Mining (Brazil). Both are Members of the Australasian Institute of Mining and Metallurgy. Mr Viana and Mr Cabaleiro have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activities which they have each undertaken to qualify as a "Competent Person" as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore reserves (the JORC Code). Mr Viana and Mr Cabaleiro have consented to the inclusion of their information in this report, in the form and context in which they appear.

INTERIM DOMESTIC EXPANSION

Given the delay in licensing, SAFM has recently re-assessed the opportunity to implement an interim expansion to 3 million tonnes ROM per year and sell its product to the domestic iron ore market, which has repeatedly shown strong demand for SAFM's ore.

The interim expansion involves constructing a new beneficiation plant and upgrading the two existing concentrators in order to double the throughput rate capacity, whilst marginally increasing production personnel



and operating expenditure. This strategy would postpone the need for large capital raising, whilst making SAFM highly cash generative in the short to medium term. The Company still intends to proceed with its 8Mtpa expansion once all infrastructure and logistic licencing and permits have been received.

STAFF AND MANAGEMENT

In August 2013, SAFM welcomed the appointment of Rogerio Caporali to the Board as an Independent Non Executive Director. Mr Caporali, who is based in Belo Horizonte, has been advising SAFM on its expansion plans since October 2012. As a board member, Rogerio brings further industry expertise and local management experience to the Ponto Verde project.

In December 2013, SAFM appointed Glauco Mol as Chief Operational Officer. Mr Mol brought renewed enthusiasm to the Brazilian executive team. Mr Mol has over 20 years of mining experience, having held senior management positions in various Brazilian iron ore companies, including SAFM, where he worked from 2008 to 2011.

HEALTH, SAFETY AND ENVIRONMENT

SAFM's Occupational Health and Safety Programme is at the core of operations and work ethic. It ensures the well-being of SAFM's people and enhances the Company's relationship with regulatory authorities responsible for approving future operations and infrastructure construction. SAFM has maintained an exemplary safety record with only two minor incidents recorded and no lost time incidents during the year.

Management continuously seeks new ways to improve safety procedures and performance. Safety improvements implemented during the year ended 30 June 2014 included: hiring a safety steward, installing new plant barriers and re-enforcing existing ones, purchasing new safety equipment for operational staff, re designing safety procedures and introducing a new training initiative.

As SAFM's open pit mine expands, the Company endeavours to maintain its status as an environmentally friendly and ecological iron ore producer. In 2014, Management continued

to adopt and enforce SAFM's sustainable mining programme which includes the recovery of degraded areas, providing environmental education to all employees and minimizing the environmental impact of its operations.

LOOKING AHEAD

In the medium term, the Board of SAFM is confident that the interim expansion strategy will position the Company to be profit generating in this low price iron ore environment. The interim expansion utilises existing processes, crushing and grinding circuits and proven magnetic separation technology. The construction phase is conservatively scheduled over a 12 month period in 2015. The Company is currently in discussion with potential capital providers regarding funding for the project.

It is the belief of the Board and management that the levels of production optimisation and cost reduction that have been instituted by SAFM over the past year have positioned the Company as a highly competitive player in the iron ore market with long lasting benefits already being realised.

BOARD OF DIRECTORS



Terence Willsteed
Non-Executive Chairman

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

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



Stephen Fabian
Non-Executive Director

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

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



Stephen Turner
Managing Director

Mr Turner has over 25 years' experience in the resources sector. He was the Chief Executive Officer of International Ferro Metals Limited for seven years. International Ferro Metals Limited is a South African based integrated mining and smelting company which produces over 3% of global ferrochrome supply and is listed on the London Stock Exchange. Mr Turner is currently its Non-executive Deputy Chairman.

Mr Turner is the Non-executive Chairman of Vantage Goldfields Limited, an Australian gold company operating in South Africa. Within the last three years he was also a non-executive director of both Iluka Resources Limited and Timpetra Resources Limited. He was a founding director of the Australian subsidiary of PSG Investment Group, then South Africa's sixth largest investment bank. Stephen is an Australian Chartered Accountant.



Wayne Kernaghan
Non-Executive Director

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

Mr Kernaghan brings to SAFM more than 25 years' experience in the mining industry as a Director and Company Secretary with a number of resources companies listed on the Australian Securities Exchange and London Stock Exchange. During the past three years Mr Kernaghan has held and is currently a director of Cullen Resources Limited and Gulf Industrials Limited.



Alan Doyle
Executive Director

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



Rogério Caporali
*Non-Executive Director
(appointed 1 August 2013)*

Mr Caporali is a Graduate in Physics and Mining Engineering from the Universidade Federal de Minas Gerais ("UFMG"). He has completed graduate specialization studies for Technical and Economic Assessment for Mineral Projects as well as graduating from Executive Development Program at Fundação Dom Cabral in Belo Horizonte. Mr Caporali completed a Columbia Business Executive Program in the United States in 2002.

Mr Caporali has extensive experience in the management of large mines in Brazil, and has held numerous senior management positions with Vale Group. In 2004, Mr Caporali was invited by Companhia Siderúrgica Nacional ("CSN") to join its mining expansion team, where he held the position of Director of CSN mines, CEO at Companhia de Fomento Mineral e Participações ("CFM") and COO at Nacional Minérios ("NAMISA").

KEY MANAGEMENT



Dion Cohen

**Chief Financial Officer
and Company Secretary**

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



Eduardo Freitas

Chief Commercial Officer

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



José Márcio Paixão

Chief Development Officer

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



Glauco Mol

**Chief Operating Officer
(appointed on 6 December 2013)**

Mr Mol holds a degree in mining engineering from the Federal University of Minas Gerais and is specialised in Safety Engineering. Mr Mol has more than 25 years' experience holding senior management positions for mining companies in Brazil, Minerminas, where he Chief Operating Officer, Extrativa Paraopeba and Mineracao Serra das Farogas.

CORPORATE GOVERNANCE STATEMENT

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

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

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

1. BOARD OF DIRECTORS

1.1. Roles and Responsibilities

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

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

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

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

The Board ensures that the Managing Director and the Management team is appropriately qualified and experienced to discharge their responsibilities effectively and periodically assess the performance of the Executive Management.

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

- > Board approval and monitoring of a strategic plan.
- > Approval of annual budgets.
- > Presentations to the Board by financial, operations, exploration and marketing management.

In the spirit of transparency and trust, there will be regular reporting and open dialogue between the Managing Director and the Board.

1.2. Membership

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

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

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

1.3. Skills, Knowledge, Experience and Attributes of Directors

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

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

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

1.4. Chairman

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

Mr Willsteed was appointed as Chairman to the Board of SAFM on 11 November 2010. Mr Willsteed is an independent Non-executive Director. As Chairman, Mr Willsteed is

committed to his role and has made sufficient time and resources available to serve the Company effectively.

1.5. Fiduciary Duties

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

1.6. Duties of Directors

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

1.7. Conflict of Interest

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

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

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

1.8. Independence

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

Terence Willsteed
Wayne Kernaghan

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Mr Turner and Mr Doyle are not considered to be independent Directors as they are executive directors and hold significant shareholdings in SAFM. Mr Fabian is also not considered independent due to his significant shareholding in SAFM and because of his previous executive involvement in the Company. Mr Caporali is also not considered independent due to his consultancy services provided to the Company during FY2014.

1.9. Terms of Appointment

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

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

1.10. Independent Advice

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

1.11. Remuneration Policy

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

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

1.12. Remuneration Incentives

Director and executive remuneration is currently not linked to either long term or short term performance conditions. The Board feels that the expiry date and exercise price of the options when issued to the directors and executives is sufficient to align the goals of the directors and executives with those of the shareholders to maximise shareholder wealth, and as such, has not set any performance conditions for the directors or the executives of the Company. The Board will continue to monitor this policy to ensure that it is appropriate for the Company in future years.

1.13. Security Trading Policy

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

1.14. Meetings

The Board holds monthly Board meetings.

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

During the year ended 30 June 2014 (FY2014), 11 Board meetings were held. Attendance by the Directors at Board and Board Committee meetings is disclosed in the Directors' report. The Chief Financial Officer and senior management personnel are invited to attend the Board meetings to present key operational and financial information.

1.15. Company Secretary

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

1.16. Review, Re-election and Renewal

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

2. BOARD COMMITTEES

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

The Board of SAFM has the following Board Committees:

- > Remuneration Committee
- > Audit Committee
- > Risk Management Committee

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

2.1. Remuneration Committee

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

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

- > To review and make recommendations to the Board in respect of all equity based remuneration plans.

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

The Remuneration Committee members are:

Wayne Kernaghan (Chairman)
Terence Willstead
Stephen Fabian (appointed 26 July 2013)
Stephen Turner (resigned 26 July 2013)

A total of one Remuneration Committee meeting was held during the year.

2.2. Audit Committee

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

The Committee will:

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

The Audit Committee members are:

Wayne Kernaghan (Chairman)
Terence Willstead
Stephen Fabian (appointed 26 July 2013)
Stephen Turner (resigned 26 July 2013)

The majority of the Committee members are independent and the Chairman of the audit committee, Mr Kernaghan, is not the Chairman of the Board.

Ernst & Young, the Company's auditors, did not perform any other services other than their statutory audit duties.

A total of 3 Audit Committee meetings were held during the year and attended by all members of the Committee at the time of the meeting.

2.3. Risk Management Committee

The Board has nominated a Risk Management Committee.

The Risk Management Committee members are:

Stephen Fabian (Chairman)
Stephen Turner
Terence Willstead
Alan Doyle (appointed 26 July 2013)
Rogério Caporali (appointed 1 August 2013)

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

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

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

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

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

One Risk Management Committee meetings was held during the year.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

3. CODE OF CONDUCT

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

The General principles of the Code ensure:

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

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

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

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

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

This policy is reviewed annually.

4. MARKET DISCLOSURES

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

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

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

Information is communicated to shareholders through:

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

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

Electronic Communication

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

Written Communication and the Annual Report

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

Annual General Meetings

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

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

5. DIVERSITY

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

As at 30 June 2014, 22% of the workforce was female with 1 female at senior management level.

6. CONFORMANCE WITH CORPORATE GOVERNANCE STANDARDS

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

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

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

DIRECTORS' REPORT

The Directors present their report on the results of the Consolidated Entity, South American Ferro Metals Limited (ASX: SFZ or "SAFM"), for the year ended 30 June 2014.

DIRECTORS

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

Name	Current Position	Date of appointment to Board
Terence Willstead	Non-executive Chairman	11 November 2010
Stephen Turner	Managing Director	11 November 2010
Alan Doyle	Projects Director	11 November 2010
Stephen Fabian	Non-executive Director	11 November 2010
Wayne Kernaghan	Non-executive Director	26 June 2012
Rogério Caporali	Non-executive Director	1 August 2013

PRINCIPAL ACTIVITIES

SAFM is a medium sized, low cost iron ore producer listed on the Australian Stock Exchange ("ASX"). The company owns the Ponto Verde Iron Ore Project based in the heart of the well-established Iron Ore Quadrilateral, 55 kilometres from the town of Belo Horizonte in the state of Minas Gerais, Brazil.

The Company operates under a processing license of 1.5 Mtpa of Run-Of-Mine ("ROM"). The ore comprising friable Itabirite material is easily extracted by open pit mining and fed directly into its process plants, comprising of a beneficiation plant and two Concentrators.

The beneficiation plant comprises a simple two stage crushing and screening circuit that produces two products, namely Lump and Sinter Feed. The undersized material (<2mm) passes into the first stage Concentrator, that uses a two-drum medium-intensity wet magnetic separator to produce a high grade concentrate of 65% Fe. The resultant tailings are processed further through a second stage Concentrator utilising a high intensity magnetic separator to produce additional high grade concentrate of the same quality.

SAFM sells all its products to local steel and pig iron producers in Brazil, having secured offtake agreements with Vale and CSN (Namisa) for 75% of its total production.

SAFM has a JORC Resource at Ponto Verde of 403.71 million tonnes (Mt) at 40.36% Fe (which includes a Measured Resource of 83.82 Mt at 40.44% Fe, an Indicated Resource of 157.79 Mt at 41.01% Fe and an Inferred Resource of 162.10 Mt at 39.68% Fe).

REVIEW AND RESULTS OF OPERATIONS

Set out below is a review of significant activities within SAFM for the year ended 30 June 2014:

Deutsche Bank Loan Facility

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

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

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

Appointment of Non-Executive Director

On 7 August 2013, SAFM announced the appointment of Mr Rogério Caporali as a Non-Executive director, effective from 1 August 2013.

Mr Caporali has extensive experience in the management of large mines in Brazil and has held numerous senior management positions with VALE Group, including Manager of Mining Planning Department of Itabira mines (1978-1992), General Manager of Cauê Complex in Itabira (1993-1995), Director of VALE Fertilizers Division in Sergipe state (1995-1999), General Coordinator of all mines of VALE South System (1999-2001), COO and CEO at Ferteco Mineração, a mining company acquired by VALE (2001-2003) and Director of the Technical Services Department of VALE (2002-2004). He was, also appointed to the Board of Directors of FOSFERTIL SA and MRS Logística SA.

In 2004, Mr Caporali was invited by Companhia Siderúrgica Nacional (CSN) to join its mining expansion team, where he held the position of Director of CSN mines, CEO at Companhia de Fomento Mineral e Participações ("CFM) and COO at Nacional Minérios ("NAMISA").

Mr Caporali is a Graduate in Physics and Mining Engineering from the Universidade Federal de Minas Gerais ("UFMG"). He has completed graduate specialization studies for Technical and Economic Assessment for Mineral Projects as well as graduating from Executive Development Program at Fundação Dom Cabral in Belo Horizonte. Mr Caporali completed a Columbia Business Executive Program in the United States in 2002.

Mr Caporali has been advising SAFM with its BFS project since October 2012 and has been assisting the Company with the design of the Ponto Verde expansion to 8 million tonnes ROM per annum.

Acquisition of Waste and Tailings Properties

On 10 October 2013, SAFM announced it has entered into an agreement for the acquisition of a 100 hectare property in the south of its Ponto Verde Mine for R\$11 million (A\$5.27 million). The property will be used for tailings and waste disposal to be generated from SAFM's expansion project. The consideration payable under this agreement includes an upfront payment of R\$2 million (A\$0.96m) which has been settled and the balance of R\$9 million (A\$4.31 million) was paid on 31 December 2013.

A technical and environmental study of the area and has been conducted by Consultoria e Empreendimentos de Recursos Naturais Ltda ("CERN") confirming that there are no restrictions regarding the deposition of waste and tailing on the two sites. Furthermore, there are no archaeological impediments discovered on the site which would limit its use.

A detailed study of the volume capacity ratio between waste and tailings was performed by engineering consulting firm, GeoGraphos Engenharia e Consultoria Ltda ("Geographos"). The study concluded that the total area covered by the two land acquisitions would be sufficient in size to hold approximately 64 million cubic metres of waste and tailing material which would be sufficient for the expanded mine life.

Government Funding to Assist SAFM Expansion

On 12 May 2014, SAFM announced that it has signed an agreement with the State of Minas Gerais, through its representative body INDL, to deliver significant benefits for the development of its Ponto Verde expansion project in Brazil.

In summary, the framework of the agreement provides that the State Government will:

1. Provide support and assistance to SAFM in securing relatively low cost financing for fixed investment and working capital from the Bank of Development of Minas Gerais ("BDMG"), a large parastatal Bank in Minas Gerais that focuses on key infrastructure and development projects.
2. Provide significant fiscal concessions through exemptions of ICMS, a sales tax levied by the State on all goods sold within or imported into the state; and
3. Provide support and assistance in the licensing process to facilitate project delivery in a timely fashion.

As part of the agreement SAFM has undertaken a number of responsibilities, the most significant of which include committing to:

- > A total investment of R\$600 million (\$285.12 million) between 2015 and 2017;
- > The creation of 500 direct jobs by 2017, preferably sourced locally in the municipality of Itabirito;
- > Favouring local suppliers and service providers during the project's expansion, provided they meet the Company's requirements in terms of price, quality and technical capability;
- > Achieving a processing capacity of around 4 Mtpa of beneficiated product by June 2019;
- > Achieving revenues of R\$360 million in the third year of operation.

DIRECTORS' REPORT (CONTINUED)

JORC Resource

SAFM's Ponto Verde JORC total resource is 403.71 Mt, broken down as follows:

Ponto Verde Iron Ore Project JORC Grade x Tonnage Table Cut-off Grade Applied: 20% Fe Mineral Resources – Block Model: 50, 25, 10 (25,12.5, 5)								
Resource Class	Tonnes (Mt)	Fe (%)	SiO ₂ (%)	Al ₂ O ₃ (%)	Mn (%)	P (%)	LoI (%)	FeO (%)
Measured	83.82	40.44	33.28	2.4	1.49	0.074	3.79	1.07
Indicated	157.79	41.01	29.47	3.58	2.03	0.065	4.59	1.27
Measured & Indicated	241.61	40.81	30.79	3.17	1.84	0.068	4.31	1.20
Inferred	162.10	39.68	29.7	3.92	2.58	0.056	4.85	2.16
Total Resource	403.71	40.36	30.35	3.47	2.14	0.063	4.53	1.58

The updated resource has been calculated based on drilling results to an average depth of 70 metres below the surface. However, exploration drilling at depth has highlighted that mineralisation extends to over 320 metres depth. Based on this, SAFM is currently planning a Phase III exploration program that would target the core of the deposit at depth.

FINANCIAL REVIEW

Summary of income statement	30 June 2014	30 June 2013
Beneficiated production (tonnes)	853,339	626,134
Sales volumes (tonnes)*	835,747	598,202
	\$'000	\$'000
Sales revenue	29,205	19,591
Cost of goods sold	(23,175)	(12,274)
Gross profit	6,030	7,317
Other (expenses)/income	(4,230)	(4,841)
Net finance Income/(costs)	(1,869)	8
(Loss) / Profit before tax	(69)	2,484
Income tax (expense)	(1,219)	(802)
Net (loss) / profit after tax	(1,288)	1,682
Net operating cash flow	1,402	2,242
EPS (cents per share)	(0.31)	0.41

* Sales revenue represents sales of beneficiated product and includes the sale of 7,734 tonnes of Concentrator Fines in FY2013. (FY2014: no sales of Concentrator Fines).

Results of operation

SAFM has reported a net loss before tax of \$68,317 for the year ended 30 June 2014 (2013: profit: \$2.48 million), on a Turnover of \$29.2 million (2013: \$19.59 million).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as noted above, there were no other significant changes in the state of affairs of the Group for the year ended 30 June 2014.

DIVIDENDS

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

AFTER REPORTING DATE EVENTS

Memorandum of Understanding on Adjacent Property

On 9 July 2014, SAFM announced that it has entered into a Memorandum of Understanding ("MOU") with the owners of the property adjacent to its Ponto Verde iron ore project.

The MOU sets out on a non-binding basis the fundamentals for the negotiation regarding a possible agreement between the parties allowing SAFM to mine the ore body located on the eastern side of its tenement in the property Sapeca do Sul, contiguous with the SAFM Ponto Verde mine.

The MOU allows SAFM to use Drill Hole Survey Data from this property in order to build a new and enlarged block model for the possible expansion of the SAFM Ponto Verde mine. SAFM is currently re-evaluating the overall scope of its current Bankable Feasibility Study ("BFS") in light of this additional information with a view to enlarging the initial reserve for mining.

JORC Resource

On 8 September 2014, SAFM announced that its JORC Mining Resource has increased by 34%, from 301.1 Mt to 403.71 Mt. This additional resource information has been gathered from an additional 12 diamond drill and 162 samples from 584.5 metres of trenching which confirms the continuity of mineralization.

SAFM is currently re-evaluating the overall scope of its current Bankable Feasibility Study (BFS) in light of this additional information with a view to enlarging the initial reserve for mining. The majority of the updated Resource has been calculated to an average depth of 70 metres below the surface. However, exploration drilling at depth has highlighted that mineralisation extends to over 320 metres depth. Based on this, SAFM will plan a drilling program to target the core of the deposit at depth which will have the potential to further increase the size of the deposit.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

In response to licensing delays and the resulting deferral in the BFS completion date, SAFM has devised an alternative expansion plan to be executed in the short-medium term which capitalises on current trends and domestic market conditions. The Company has assessed the strategy to expand to 3 million tonnes ROM, a lower target than the BFS, but one which would allow the company to be quick to market, with the intention of selling its entire product to the domestic iron ore market ("Domestic Expansion") where there is currently high demand. This would eliminate the need for ancillary Logistics permits and large capital investment in the short-medium term, whilst making SAFM highly cash generative. It is intended that the Company would proceed with its 8Mtpa expansion once all licences and permits have been received, together with an improvement in the equity markets.

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

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

ENVIRONMENTAL ISSUES

SAFM is committed to the responsible management of the environment in and around Ponto Verde and sustainable iron ore production. This includes compliance with the government ministerial agreement governing the site, and site-based operational activities. SAFM has employed a full-time public environmental officer at Ponto Verde who oversees and monitors compliance with the ministerial agreement. As part of that agreement SAFM has constructed a park fence next to the Ponto Verde site. The Company is also involved on the rehabilitation work of caves and ruins in the Aredes Park. Also in line with our government compliance commitment, on-ground rehabilitation work was completed in FY2014.

Recent site-based environmental work has been focused on staff environmental and safety education, reducing air emissions, identifying and mapping the local hydroresources and monitoring natural erosion rates.

DIRECTORS' REPORT (CONTINUED)

COMPETENT PERSONS

Information in this statement that relates to the JORC resource at Ponto Verde is based on information compiled by Mr Bernardo Hurta de C Viana (Phase I) and Mr Porfirio Cabaleiro (Phase II) both of Coffey Mining (Brazil). Both are Members of the Australasian Institute of Mining and Metallurgy. Mr Viana and Mr Cabaleiro have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they have each undertaken to qualify as a "Competent Person" as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore reserves (the JORC Code). Mr Viana and Mr Cabaleiro have consented to the inclusion in this report, based on their information in the form and context in which they appear.

DIRECTORS' QUALIFICATIONS AND EXPERIENCE

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

NON-EXECUTIVE DIRECTORS

Terence Willsteed

Non-Executive Chairman

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

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

Stephen Fabian

Non-Executive Director

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

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

Wayne Kernaghan

Non-Executive Director

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

Mr Kernaghan brings to SAFM more than 25 years' experience in the mining industry as a Director and Company Secretary with a number of resources companies listed on the Australian Securities Exchange and London Stock Exchange. During the past three years Mr Kernaghan has held and is currently a director of Cullen Resources Limited and Gulf Industrials Limited.

Rogério Caporali

Non-Executive Director (appointed 1 August 2013)

Mr Caporali is a Graduate in Physics and Mining Engineering from the Universidade Federal de Minas Gerais ("UFMG"). He has completed graduate specialization studies for Technical and Economic Assessment for Mineral Projects as well as graduating from Executive Development Program at Fundação Dom Cabral in Belo Horizonte. Mr Caporali completed a Columbia Business Executive Program in the United States in 2002.

Mr Caporali has extensive experience in the management of large mines in Brazil, and has held numerous senior management positions with Vale Group. In 2004, Mr Caporali was invited by Companhia Siderúrgica Nacional ("CSN") to join its mining expansion team, where he held the position of Director of CSN mines, CEO at Companhia de Fomento Mineral e Participações ("CFM") and COO at Nacional Minérios ("NAMISA").

EXECUTIVE DIRECTORS

Stephen Turner

Managing Director

Mr Turner has over 25 years' experience in the resources sector. He was the Chief Executive Officer of International Ferro Metals Limited for seven years. International Ferro Metals Limited is a South African based integrated mining and smelting company which produces over 3% of global ferrochrome supply and is listed on the London Stock Exchange. Mr Turner is currently its Non-executive Deputy Chairman.

Mr Turner is the Non-executive Chairman of Vantage Goldfields Limited, an Australian gold company operating in South Africa. Within the last three years he was also a non-executive director of both Iluka Resources Limited and Timpetra Resources Limited. He was a founding director

of the Australian subsidiary of PSG Investment Group, then South Africa's sixth largest investment bank Stephen is an Australian Chartered Accountant.

Alan Doyle

Executive Director

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

KEY MANAGEMENT PERSONNEL

Dion Cohen

Chief Financial Officer and Company Secretary

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

Glauco Mol

Chief Operating Officer (appointed on 6 December 2013)

Mr Mol holds a degree in mining engineering from the Federal University of Minas Gerais and is specialised in Safety Engineering. Mr Mol has more than 25 years' experience holding senior management positions for mining companies in Brazil, Minerminas, where he Chief Operating Officer, Extrativa Paraopeba and Mineracao Serra das Farogas.

Jairo Leal

Chief Operating Officer (resigned 31 December 2013)

Mr Leal is a qualified geologist and has specialising in geostatistics. He has completed a MBA and has over 25 years' experience in the mining industry in Brazil. Mr Leal has worked with Namisa (COO), Kinross Gold (VP and General Manager) and Vale (General Manager Mining). He has extensive experience in operations, community relations, mine logistics and processing.

José Márcio Paixão

Chief Development Officer

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

Eduardo Freitas

Chief Commercial Officer

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

DIRECTORS' REPORT (CONTINUED)

MEETINGS OF DIRECTORS

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

	Board Meetings	Audit Committee	Risk Management Committee	Remuneration Committee
Number of meetings held	11	3	1	1
Number of meetings attended:				
Terence Willstead	11	3	1	1
Stephen Turner	11	–	1	–
Alan Doyle	11	–	1	–
Stephen Fabian	11	3	1	1
Wayne Kernaghan	11	3	1	1
Rogério Caporali	10	–	1	–

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

All directors were eligible to attend all board meetings held. Refer to Section 2 of the Corporate Governance Statement for details of Directors' roles on the above committees.

SHARE OPTIONS

As at the date of this report, there were 83,518,262 unlisted options (4,130,000 issued to past directors, 36,500,000 issued to Directors and KMP and 20,457,383 issued to Deutsche Bank Limited) and 22,430,879 listed options over ordinary shares on issue that have been issued. Refer to the remuneration report and note 22 for further details of the options outstanding.

SHARES ISSUED AS A RESULT OF THE EXERCISE OF OPTIONS

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

DIRECTORS' INTERESTS AND BENEFITS

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

	Number of Ordinary Shares		Number of Options			
			Listed		Unlisted	
	Directly	Indirectly	Directly	Indirectly	Directly	Indirectly
Terence Willstead	–	4,500,004	–	–	–	10,000,000
Stephen Turner	–	61,689,809	–	–	7,500,000	–
Alan Doyle	1,000,004	64,914,419	–	–	5,000,000	–
Stephen Fabian	–	44,598,809	–	–	2,500,000	–
Wayne Kernaghan	–	1,650,001	–	–	–	2,500,000
Rogério Caporali	–	–	–	–	–	2,500,000

REMUNERATION REPORT (AUDITED)

INTRODUCTION

The Directors of SAFM present the Remuneration Report for the Group for the year ended 30 June 2014. This Remuneration Report forms part of the Directors' Report in accordance with the requirements of the Corporation Act 2001 and its regulations.

For the purposes of this report Key Management Personnel ("KMP") of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

Table 1: The details of the KMP are:

Name	Position
Terence Willstead	Non-Executive Chairman
Stephen Turner	Managing Director
Alan Doyle	Projects Director
Stephen Fabian	Non-Executive Director
Wayne Kernaghan	Non-Executive Director
Rogério Caporali	Non-Executive Director
Dion Cohen	Chief Financial Officer and Company Secretary
Glauco Mol	Chief Operating Officer (Appointed 9 December 2013)
Jairo Leal	Chief Operating Officer (Resigned 31 December 2013)
José Márcio Paixão	Chief Development Officer
Eduardo Freitas	Chief Commercial Officer

Remuneration Policy

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

Executive Directors and Key Management Personnel

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

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

KMP in Australia receive a superannuation guarantee contribution required by the government, which for FY 2014 was 9.25%. KMP in Australia do not receive any other retirement benefits.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Non-Executive Directors

The Board's policy is to remunerate Non-Executive Directors based on market practices, duties and accountability. Independent external advice is sought when required. The fees paid to Non-Executive Directors are reviewed annually. The maximum aggregate amount of fees that can be paid to Non Executive Directors is subject to approval by Shareholders at the Annual General Meeting ("AGM"). The maximum aggregate amount of fees payable is currently \$750,000 per annum.

Long Term Incentives ("LTI")

The Company has an Incentive Option Scheme ("Scheme") as a long term incentive scheme to attract, retain and motivate eligible employees by offering eligible participants the opportunity to Share in the Company's future performance through awards to acquire ordinary shares in the Company.

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

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

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

On 27 November 2013, Shareholders approved the grant of 31.5 million options to the Directors of the Company to subscribe for up to a total of 31.5 million ordinary shares in the Company, in accordance with the Scheme rules. In addition, Share options to subscribe for 2.5 million ordinary shares were granted to Mr Cohen on 23 January 2014 under the employee share option scheme.

On 23 January 2014, the Board approved the cancellation of 17,500,000 share options granted to Mr Willsteed (5,000,000), Mr Tuner (2,500,000), Mr Doyle (2,500,000), Mr Fabian (2,500,000) and Mr Cohen (5,000,000).

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

Short Term Incentives ("STI") and Benefits

The Board is responsible for assessing short term incentives for KMP. Individual key performance indicators are set for each executive at the commencement of each financial year under the STI.

The current incentive STI allows for incentive payments of up to 40% of annual base salary on the specific achievement against key performance indicators set for each executive. The key performance indicators have been chosen to drive overall performance in the current year, including both

financial performance and delivery against measures that impact the long-term sustainability of the Group.

The incentive payment is discretionary, subject to individual performance targets being reached and contingent to the executive remaining an employee with the company.

There were no short term incentives awarded in the year ended 30 June 2014. (2013: \$58,677).

Use of Remuneration Consultants

To ensure the Remuneration Committee is fully informed when making remuneration decisions, it may seek external remuneration advice. The Board did not require external remuneration advice during the year ended 30 June 2014.

Remuneration Report Approval at FY2013 AGM

The remuneration report for the year ended 30 June 2013 was approved by shareholders at the Company's AGM which was held on 27 November 2013.

Share Trading and Margin Loans by Directors and Executives

Directors, executives and employees are prohibited from:

- Short term trading: trading in securities (or an interest in securities) on a short-term trading basis other than when a director, employee or executive exercises employee options or performance rights to acquire shares at the specified exercise price. Short-term trading includes buying and selling securities within a 3 month period, and entering into other short-term dealings (e.g. forward contracts),
- Hedging unvested awards: trading in securities which operate to limit the economic risk of an employee's holdings of unvested securities granted under an employee incentive plan; or
- Short positions: trading in securities which enable an employee to profit from or limit the economic risk of a decrease in the market price of shares.

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

- Entering into a margin lending arrangement in respect of securities;
- Transferring securities into an existing margin loan account; and
- Selling securities to satisfy a call pursuant to a margin loan except where they have no control over such sale.

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

A. DETAILS OF REMUNERATION

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

			Fixed			STI	LTI	Total	Proportion of Remuneration		
	Year	Salary, fees and leave \$	Other Fees ¹ \$	Termination Payment	Superannuation ² \$	Incentive payments \$	Fair value of Share Options (equity settled) ³ \$	\$	Fixed %	STI %	LTI %
Non-Executive Directors											
Terence Willstead	2014	230,000	–	–	–	–	147,464	377,464	61	–	39
	2013	230,000	–	–	–	–	75,468	305,468	75	–	25
Stephen Fabian	2014	65,000	–	–	–	–	21,254	86,254	75	–	25
	2013	65,000	–	–	–	–	–	65,000	100	–	–
Wayne Kernaghan	2014	59,497	–	–	5,503	–	52,478	117,478	55	–	45
	2013	59,633	–	–	5,367	–	37,734	102,734	63	–	37
Rogério Caporali ⁴	2014	59,583	128,203	–	–	–	21,254	209,040	90	–	10
	2013	–	–	–	–	–	–	–	–	–	–
Total Non-Executive Directors	2014	414,080	128,203	–	5,503	–	242,450	790,236			
	2013	354,633	–	–	5,367	–	113,202	473,202			
Executive Directors											
Stephen Turner	2014	356,979	–	–	33,008	–	57,776	447,763	87	–	13
	2013	168,216	–	–	14,310	–	–	182,526	100	–	–
Alan Doyle	2014	390,000	–	–	–	–	124,774	514,774	76	–	24
	2013	173,324	85,000	–	–	–	37,734	296,058	87	–	13
Phillip Hopkins	2014	–	–	–	–	–	–	–	–	–	–
	2013	307,582	–	–	30,963	–	(16,561)	321,984	100	–	–
Total Executive Directors	2014	746,979	–	–	33,008	–	182,550	962,537			
	2013	649,122	85,000	–	45,273	–	21,173	800,568			

Mr Caporali was appointed a Non-Executive Director of the Company from 1 August 2013.

Mr Turner was appointed Managing Director of the Company from 1 March 2013. Mr Doyle was appointed an Executive Director of the Company from 1 March 2013.

Mr Hopkins resigned as Director of the Company on 5 March 2013.

1. These amounts represent additional work undertaken for the Company, including mining consulting, engineering and management services charged.

2. Includes superannuation payment in Australia and any voluntary fee sacrifice to superannuation.

3. The Share-Based Payments comprise options over ordinary shares in the Company and have been valued based on the Binomial options pricing model using a Monte Carlo simulation analysis. On 23 January 2014, the Board approved the cancellation of 2,500,000 share options issued to Mr Doyle, an accelerated amortisation expense of \$40,876 was recognised on 30 June 2014.

4. Director Fees for Rogério Caporali has been converted at an exchange rate for the year ended of 30 June 2014 of US\$/R\$: 1.0898 at 30 June 2014, being US\$54,673 (\$59,583). Other Fees for Rogério Caporali has been converted at an exchange rate for the year ended of 30 June 2014 of R\$/US\$: 0.4762 at 30 June 2014, being R\$269,220 (\$128,203).

REMUNERATION REPORT (AUDITED) (CONTINUED)

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

			Fixed			STI	LTI	Total	Proportion of Remuneration		
	Year	Salary, fees and leave \$	Other Fees ¹ \$	Termination Payment	Superannuation ² \$	Incentive payments \$	Fair value of Share Options (equity settled) ³ \$	\$	Fixed %	STI %	LTI %
KMP											
Dion Cohen	2014	299,993	–	–	28,394	–	99,722	428,109	77	–	23
	2013	184,864	–	–	18,063	11,881	37,734	252,542	80	5	15
José Paixão ⁴	2014	247,267	–	–	–	–	53,851	301,118	82	–	18
	2013	194,152	–	–	–	20,055	–	214,207	91	9	–
Glauco Mol ⁴	2014	131,431	–	–	–	–	–	131,431	100	–	–
	2013	–	–	–	–	–	–	–	–	–	–
Eduardo Freitas ⁴	2014	204,129	–	–	–	–	32,310	236,439	86	–	14
	2013	187,707	–	–	–	8,022	–	195,729	96	4	–
Jairo Leal ⁴	2014	131,431	–	87,621	–	–	–	219,052	100	–	–
	2013	153,755	–	–	–	15,376	–	169,131	91	9	–
Helvécio Pires	2014	–	–	–	–	–	–	–	–	–	–
	2013	43,419	–	–	–	3,343	–	46,762	93	7	–
KMP	2014	1,014,251	–	87,621	28,394	–	185,883	1,316,149			
	2013	763,897	–	–	18,063	58,677	37,734	878,371			
Total Remuneration	2014	2,175,310	128,203	87,621	66,905	–	610,883	3,068,922			
	2013	1,767,652	85,000	–	68,703	58,677	172,109	2,152,141			

Mr Leal's contract was terminated on 31 December 2013.

Mr Mol's was appointed on 9 December 2013.

1. These amounts represent additional work undertaken for the Company, including mining consulting, engineering and management services charged.

2. Includes superannuation payment in Australia and any voluntary fee sacrifice to superannuation.

3. The Share-Based Payments comprise of options over ordinary shares in the Company and have been valued based on the Binomial options pricing model using a Monte Carlo simulation analysis. On 23 January 2014, the Board approved the cancellation of 2,500,000 share options issued to Mr Cohen, an accelerated amortisation expense of \$40,876 was recognised on 30 June 2014.

4. The remuneration in Brazil has been converted at an exchange rate for the year ended of 30 June 2014 of R\$/: 0.4762 at 30 June 2014, being R\$1,683,192 (\$801,879). The remuneration in Brazil has been converted at an exchange rate for the year ended of 30 June 2013 of R\$/:0.4775 at 30 June 2013, being R\$1,310,699 (\$625,859).

B. SERVICE AGREEMENTS

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

Mr Terence Willstead

Non-Executive Chairman

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

- > Mr Willstead is paid a service fee, in his current role as Chairman, of \$230,000 per annum. Additional consulting work for the Company undertaken by Mr Willstead for more than four days in any month is paid at the rate of \$450 per hour.
- > Patermat Pty Limited was granted 5,000,000 unlisted equity settled Share options through the Company's Incentive Option Scheme during the year ended 30 June 2014, as approved by shareholders. On 23 January 2014, Patermat Pty Limited voluntarily cancelled 5,000,000 options. The terms of the options are set out in section C of this remuneration report.
- > The service agreement may be terminated at any time by Mr Willstead giving the Company not less than three month's written notice. The Company may terminate the agreement without cause by providing not less than three months written notice or by making a lump sum payment in lieu of any such period of notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Willstead's employment at any time without any compensation payable.

Mr Stephen Fabian

Non-Executive Director

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

- > Mr Fabian is paid a service fee of \$65,000 per annum.
- > Mr Fabian will provide his services as director for two days per month.
- > Mr Fabian was granted 2,500,000 unlisted equity settled Share options through the Company's Incentive Option Scheme during the year ended 30 June 2014, as approved by shareholders. The terms of the options are set out in section C of this remuneration report.
- > The service agreement may be terminated at any time by Mr Fabian giving the Company not less than three month's written notice. The Company may terminate the agreement without cause by providing not less than three months written notice or by making a lump sum payment in lieu

of any such period of notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Fabian's employment at any time without any compensation payable.

Mr Wayne Kernaghan

Non-Executive Director

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

- > Mr Kernaghan is paid a salary of \$65,000 per annum inclusive of superannuation.
- > Mr Kernaghan will provide his services as director for two days per month.
- > Mr Kernaghan was not granted any options during the year ended 30 June 2014.
- > The service agreement may be terminated at any time by Mr Kernaghan giving the Company not less than three month's written notice. The Company may terminate the agreement without cause by providing not less than three months written notice or by making a lump sum payment in lieu of any such period of notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Kernaghan's employment at any time without any compensation payable.

Mr Rogério Caporali

Non-Executive Director

The Company entered into a service agreement with Mr Caporali on 1 August 2013. Under the terms of the present contract:

- > Mr Caporali is paid a service fee of \$65,000 per annum.
- > Mr Caporali will provide his services as director for two days per month.
- > Mr Caporali was paid fees of R\$269,220 (\$128,203) for his services as engineering consultant to SAFM during the year ended 30 June 2014.
- > Mr Caporali was granted 2,500,000 unlisted equity settled Share options through the Company's Incentive Option Scheme during the year ended 30 June 2014, as approved by shareholders. The terms of the options are set out in section C of this remuneration report.
- > The service agreement may be terminated at any time by Mr Caporali giving the Company not less than three month's written notice. The Company may terminate the agreement without cause by providing not less than three months written notice or by making a lump sum payment in lieu of any such period of notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Caporali's employment at any time without any compensation payable.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Mr Stephen Turner

Managing Director

The Company entered into a service agreement with Mr Turner with effect from 1 March 2013. Under the terms of the present contract:

- > Mr Turner is paid a salary, in his current role as Managing Director, of \$390,000 per annum (inclusive of superannuation) from 1 March 2013.
- > Mr Turner was granted 7,500,000 unlisted equity settled Share options through the Company's Incentive Option Scheme during the year ended 30 June 2014. The terms of the options are set out in section C of this remuneration report.
- > The service agreement may be terminated at any time by Mr Turner giving the Company not less than three month's written notice. The Company may terminate the agreement without cause by providing not less than six months written notice or by making a lump sum payment, including any bonuses, in lieu of any such period of notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Turner's employment at any time without any compensation payable.

Mr Alan Doyle

Executive Director

The Company entered into a service agreement with Mr Doyle with effect from 1 March 2013. Under the terms of the present contract:

- > Mr Doyle is paid a salary, in his current role as Executive Director, of \$390,000 per annum.
- > Mr Doyle was granted 5,000,000 unlisted equity settled Share options through the Company's Incentive Option Scheme during the year ended 30 June 2014. On 23 January 2014, Mr Doyle voluntarily cancelled 2,500,000 share options. The terms of the options are set out in section C of this remuneration report.
- > The service agreement may be terminated at any time by Mr Doyle giving the Company not less than three month's written notice. The Company may terminate the agreement without cause by providing not less than six months written notice or by making a lump sum payment, including any bonuses, in lieu of any such period of notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Doyle's employment at any time without any compensation payable.

Mr Dion Cohen

Chief Financial Officer and Company Secretary

The Company entered into a service agreement with effect from 1 October 2012.

- > From 1 September 2013, Mr Cohen is paid salary of \$354,000 per annum for his services as Chief Financial Officer and Company Secretary inclusive of superannuation.
- > Mr Cohen was granted 2,500,000 unlisted equity settled Share options through the Company's Incentive Option Scheme during the year ended 30 June 2014. The terms of the options are set out in section C of this remuneration report. On 23 January 2014, Mr Cohen voluntarily cancelled 2,500,000 share options.
- > The service agreement may be terminated at any time by Mr Cohen giving the Company not less than six month's written notice. The Company may terminate the agreement without cause by providing not less than twelve months written notice or by making a lump sum payment in lieu of any such period of notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Cohen employment at any time without any compensation payable.

Mr Glauco Mol

Chief Operating Officer (appointed 9 December 2013)

The Company entered into a fixed term contract with Mr Mol on 9 December 2013. The consultancy term was for 12 months, subject to termination provisions. Under the terms of his contract he was paid:

- > Mr Mol is paid a consulting fee of R\$552,000 (\$262,862) per annum for his services as Chief Operating Officer.
- > Mr Mol was not granted any options during the year ended 30 June 2014.
- > The service contract may be terminated by Mr Mol by giving the Company not less than three months written notice. The Company may terminate the agreement without cause by providing not less than three months written notice or by making a lump sum payment in lieu of any such period of notice. SAFM is able to terminate the service contract without notice if Mr Mol is in breach of the service contract without making any compensation payable.

Mr Jairo Leal

Chief Operating Officer (appointed 3 December 2012, contract terminated on 31 December 2013)

The Company entered into a fixed term contract with Mr Leal on 3 December 2012. The consultancy term was for 12 months, subject to termination provisions. After lapsing of the 12 month period, the contract may be extended for an additional period of 12 months. Under the terms of the contract:

- > Mr Leal was paid a service fee of R\$552,000 (\$262,862) per annum for his services as Chief Operating Officer.
- > The service contract was able to be terminated by Mr Leal by giving the Company not less than three months written notice. The Company was able to terminate the agreement without cause by providing not less than three months written notice or by making a lump sum payment in lieu of any such period of notice. SAFM was able to terminate the service contract without notice if Mr Leal was in breach of the service contract without making any compensation payable.
- > As part of Mr Leal's termination agreement, he was paid R\$184,000 (\$87,621).

Mr José Márcio Paixão

Chief Development Officer

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

- > Mr Paixão is paid a service fee of R\$552,000 (\$262,862) per annum for his services as Chief Development Officer.
- > Mr Paixão was granted 2,500,000 unlisted equity settled Share options through the Company's Incentive Option Scheme during the year ended 30 June 2014. The terms of the options are set out in section C of this remuneration report.
- > The service contract may be terminated by Mr Paixão by giving ninety days' notice in writing. The Company may terminate the agreement without cause by paying Mr Paixão six months' equivalent of the aggregate service fee payable from the end of the month in which such termination becomes effective. SAFM may also terminate the service contract without notice if Mr Paixão is in breach of the service contract without making any termination payment.

Mr Eduardo Freitas

Chief Commercial Officer

The Company entered into a fixed term contract with Mr Freitas on 1 February 2013. The consultancy term is for 12 months, subject to termination provisions. After lapsing of the 12 month period, the contract may be extended for an additional period of 12 months. Under the terms of the present agreement:

- > Mr Freitas is paid a service fee of R\$428,688 (\$204,129) per annum for his services as Chief Commercial Officer.
- > Mr Freitas was granted 1,500,000 unlisted equity settled Share options through the Company's Incentive Option Scheme during the year ended 30 June 2014. The terms of the options are set out in section C of this remuneration report.
- > The service contract may be terminated by giving ninety days' notice in writing by either party. SAFM may also terminate the service contract without notice if Mr Freitas is in breach of the service contract without making any termination payment.

REMUNERATION REPORT (AUDITED) (CONTINUED)

C. SHARE BASED PAYMENTS

Unlisted Share options granted, lapsed, cancelled and vested for 30 June 2014

No unlisted share options were exercised during the year ended 30 June 2014.

The following table sets out the details of unlisted share option movements during the year ended 30 June 2014.

	Tranche	Opening Balance	Options Issued as Remuneration	Grant date	Fair value per Option at grant date	Exercise price per Option
Non-Executive Directors						
Terence Willstead	1	1,666,667	–	24/02/11	\$0.050	\$0.36
	2	1,666,667	–	24/02/11	\$0.030	\$0.36
	3	1,666,666	–	24/02/11	\$0.020	\$0.36
	1	1,666,667	–	20/12/12	\$0.048	\$0.12
	2	1,666,667	–	20/12/12	\$0.048	\$0.12
	3	1,666,666	–	20/12/12	\$0.048	\$0.12
	1	–	1,666,667	27/11/13	\$0.024	\$0.07
	2	–	1,666,667	27/11/13	\$0.026	\$0.07
	3	–	1,666,666	27/11/13	\$0.029	\$0.07
Stephen Fabian	1	833,333	–	24/02/11	\$0.050	\$0.36
	2	833,333	–	24/02/11	\$0.030	\$0.36
	3	833,334	–	24/02/11	\$0.020	\$0.36
	1	–	833,333	27/11/13	\$0.024	\$0.07
	2	–	833,333	27/11/13	\$0.026	\$0.07
	3	–	833,334	27/11/13	\$0.029	\$0.07
Wayne Kernaghan	1	833,333	–	20/12/12	\$0.048	\$0.12
	2	833,333	–	20/12/12	\$0.048	\$0.12
	3	833,334	–	20/12/12	\$0.048	\$0.12
Rogério Caporali	1	–	833,333	27/11/13	\$0.024	\$0.07
	2	–	833,333	27/11/13	\$0.026	\$0.07
	3	–	833,334	27/11/13	\$0.029	\$0.07
Executives						
Stephen Turner	1	833,333	–	24/02/11	\$0.050	\$0.36
	2	833,333	–	24/02/11	\$0.030	\$0.36
	3	833,334	–	24/02/11	\$0.020	\$0.36
	1	–	1,666,667	27/11/13	\$0.024	\$0.07
	2	–	1,666,667	27/11/13	\$0.026	\$0.07
	3	–	1,666,666	27/11/13	\$0.029	\$0.07
	1	–	833,333	27/11/13	\$0.016	\$0.12
	2	–	833,333	27/11/13	\$0.019	\$0.12
	3	–	833,334	27/11/13	\$0.022	\$0.12
Alan Doyle	1	833,333	–	20/12/12	\$0.048	\$0.12
	2	833,333	–	20/12/12	\$0.048	\$0.12
	3	833,333	–	20/12/12	\$0.048	\$0.12
	1	–	1,666,667	27/11/13	\$0.024	\$0.07
	2	–	1,666,667	27/11/13	\$0.026	\$0.07
	3	–	1,666,666	27/11/13	\$0.029	\$0.07
KMP						
Dion Cohen	1	833,333	–	24/02/11	\$0.050	\$0.36
	2	833,334	–	24/02/11	\$0.030	\$0.36
	3	833,334	–	24/02/11	\$0.030	\$0.36
	1	833,333	–	20/12/12	\$0.048	\$0.12
	2	833,333	–	20/12/12	\$0.048	\$0.12
	3	833,334	–	20/12/12	\$0.048	\$0.12
	1	–	833,333	23/01/14	\$0.024	\$0.07
	2	–	833,333	23/01/14	\$0.026	\$0.07
	3	–	833,334	23/01/14	\$0.029	\$0.07
José Paixão	1	–	833,333	24/10/13	\$0.033	\$0.07
	2	–	833,333	24/10/13	\$0.034	\$0.07
	3	–	833,334	24/10/13	\$0.038	\$0.07
Eduardo Freitas	1	–	500,000	24/10/13	\$0.033	\$0.07
	2	–	500,000	24/10/13	\$0.034	\$0.07
	3	–	500,000	24/10/13	\$0.038	\$0.07
Total		25,000,000	29,000,000			

Expiry date	Number of options lapsed/cancelled	First exercise date	Last exercise date	Closing Balance	Number of options vested	% vested
31/12/15	(1,666,667)	28/2/2011 (a)	31/12/15	–	–	–
31/12/15	(1,666,667)	23/12/2011 (a)	31/12/15	–	–	–
31/12/15	(1,666,666)	23/12/2011 (a)	31/12/15	–	–	–
15/11/17	–	31/12/2013 (b)	15/11/17	1,666,667	1,666,667	100%
15/11/17	–	31/12/2014 (b)	15/11/17	1,666,667	–	–
15/11/17	–	31/12/2015 (b)	15/11/17	1,666,666	–	–
26/11/18	–	31/12/2014 (d)	26/11/18	1,666,667	–	–
26/11/18	–	31/12/2015 (d)	26/11/18	1,666,667	–	–
26/11/18	–	31/12/2016 (d)	26/11/18	1,666,666	–	–
31/12/15	(833,333)	28/02/2011 (a)	31/12/15	–	–	–
31/12/15	(833,333)	23/12/2011 (a)	31/12/15	–	–	–
31/12/15	(833,334)	23/12/2011 (a)	31/12/15	–	–	–
26/11/18	–	31/12/2014 (d)	26/11/18	833,333	–	–
26/11/18	–	31/12/2015 (d)	26/11/18	833,333	–	–
26/11/18	–	31/12/2016 (d)	26/11/18	833,334	–	–
15/11/17	–	31/12/2013 (b)	15/11/17	833,333	833,333	100%
15/11/17	–	31/12/2014 (b)	15/11/17	833,333	–	–
15/11/17	–	31/12/2015 (b)	15/11/17	833,334	–	–
26/11/18	–	31/12/2014 (d)	26/11/18	833,333	–	–
26/11/18	–	31/12/2015 (d)	26/11/18	833,333	–	–
26/11/18	–	31/12/2016 (d)	26/11/18	833,334	–	–
31/12/15	(833,333)	28/02/2011 (a)	31/12/15	–	–	–
31/12/15	(833,333)	23/12/2011 (a)	31/12/15	–	–	–
31/12/15	(833,334)	23/12/2011 (a)	31/12/15	–	–	–
26/11/18	–	31/12/2014 (d)	26/11/18	1,666,667	–	–
26/11/18	–	31/12/2015 (d)	26/11/18	1,666,667	–	–
26/11/18	–	31/12/2016 (d)	26/11/18	1,666,666	–	–
26/11/18	–	31/12/2014 (d)	26/11/18	833,333	–	–
26/11/18	–	31/12/2015 (d)	26/11/18	833,333	–	–
26/11/18	–	31/12/2016 (d)	26/11/18	833,334	–	–
15/11/17	(833,333)	31/12/2013 (b)	15/11/17	–	–	–
15/11/17	(833,333)	31/12/2014 (b)	15/11/17	–	–	–
15/11/17	(833,333)	31/12/2015 (b)	15/11/17	–	–	–
26/11/18	–	31/12/2014 (d)	26/11/18	1,666,667	–	–
26/11/18	–	31/12/2015 (d)	26/11/18	1,666,667	–	–
26/11/18	–	31/12/2016 (d)	26/11/18	1,666,666	–	–
31/12/15	(833,333)	28/02/2011 (a)	31/12/15	–	–	–
31/12/15	(833,334)	23/12/2011 (a)	31/12/15	–	–	–
31/12/15	(833,334)	23/12/2011 (a)	31/12/15	–	–	–
15/11/17	(833,333)	31/12/2013 (b)	15/11/17	–	–	–
15/11/17	(833,333)	31/12/2014 (b)	15/11/17	–	–	–
15/11/17	(833,334)	31/12/2015 (b)	15/11/17	–	–	–
23/10/18	–	31/12/2014 (e)	23/10/18	833,333	–	–
23/10/18	–	31/12/2015 (e)	23/10/18	833,333	–	–
23/10/18	–	31/12/2016 (e)	23/10/18	833,334	–	–
23/10/18	–	31/12/2013 (c)	23/10/18	833,333	833,333	100%
23/10/18	–	31/12/2014 (c)	23/10/18	833,333	–	–
23/10/18	–	31/12/2015 (c)	23/10/18	833,334	–	–
23/10/18	–	31/12/2013 (c)	23/10/18	500,000	500,000	100%
23/10/18	–	31/12/2014 (c)	23/10/18	500,000	–	–
23/10/18	–	31/12/2015 (c)	23/10/18	500,000	–	–
	(17,500,000)			36,500,000	3,833,333	

REMUNERATION REPORT (AUDITED) (CONTINUED)

Terms of the Options Issued are Detailed Below:

- a) These options were granted under the Incentive Option Scheme (approved by Shareholders on 18 February 2011) to Directors and Management and were subject to the following vesting conditions:
- > One third of the options vested upon the Company's achievement of the production run rate over a continuous three month period of at least 800,000 tonnes per annum. This performance condition was not achieved at 30 June 2014.
 - > A further one third of the options vested upon the Company identifying a JORC compliant resource of iron ore reaching or exceeding 50,000,000 tonnes. This performance condition was achieved at 30 June 2014.
 - > The final one third of the options vested upon the Company achieving a production run rate over a continuous twelve month period of at least 800,000 tonnes per annum. This performance condition was not achieved at 30 June 2014.

In addition to the vesting conditions set out above, the Exercise Condition that must be satisfied before the options can be exercised, is that the volume weighted average price of the Company's shares traded on the ASX during the five days prior to exercise of the options is at least \$0.50 per Share. These options were voluntarily cancelled on 23 January 2014.

- b) These options were subject to the following vesting conditions (approved by shareholders on 16 November 2012):

- > One third of the options will vest if employed by the Company on 31 December 2013. This service condition was achieved by all Directors at 30 June 2014.
- > A further one third will vest if employed by the Company on 31 December 2014. This service condition was not achieved at 30 June 2014.
- > The final one third will vest if employed by the Company on 31 December 2015. This service condition was not achieved at 30 June 2014.

In addition to the vesting conditions set out above, the Exercise Condition that must be satisfied before the options can be exercised, is that the volume weighted average price of the Company's shares traded on the ASX during the five days prior to exercise of the options is at least \$0.50 per Share. On 23 January 2014, 5,000,000 options were voluntarily cancelled.

- c) These options were subject to the following vesting conditions (approved by shareholders on 17 November 2013):

- > One third of the options will vest if employed by the Company on 31 December 2013. This service condition was achieved by all KMP at 30 June 2014.
- > A further one third will vest if employed by the Company on 31 December 2014. This service condition was not achieved at 30 June 2014.

- > The final one third will vest if employed by the Company on 31 December 2015. This service condition was not achieved at 30 June 2014.

In addition to the vesting conditions set out above, the options are automatically exercisable if the volume weighted average price of the Company's Shares traded on the ASX during the five days prior to exercise of the Options, is equal to or greater than \$0.50 per share.

- d) These options were subject to the following vesting conditions (approved by shareholders on 17 November 2013):

- > One third of the options will vest if employed by the Company on 31 December 2014. This service condition was not achieved at 30 June 2014.
- > A further one third will vest if employed by the Company on 31 December 2015. This service condition was not achieved at 30 June 2014.
- > The final one third will vest if employed by the Company on 31 December 2016. This service condition was not achieved at 30 June 2014.

In addition to the vesting conditions set out above, the options are automatically exercisable if the volume weighted average price of the Company's Shares traded on the ASX during the five days prior to exercise of the Options, is equal to or greater than \$0.50 per share.

- e) These options were subject to the following vesting conditions:

- > One third of the options will vest if employed by the Company on 31 December 2014. This service condition was not achieved at 30 June 2014.
- > A further one third will vest if employed by the Company on 31 December 2015. This service condition was not achieved at 30 June 2014.
- > The final one third will vest if employed by the Company on 31 December 2016. This service condition was not achieved at 30 June 2014.

In addition to the vesting conditions set out above, the options are automatically exercisable if the volume weighted average price of the Company's Shares traded on the ASX during the five days prior to exercise of the Options, is equal to or greater than \$0.50 per share.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Unlisted Share Options Granted and Vested for 30 June 2013

No unlisted share options were exercised during the year ended 30 June 2013.

The following table sets out the details of unlisted share option movements during the year ended 30 June 2013.

	Tranche	Opening Balance	Options Issued as Remuneration	Grant date	Fair value per Option at grant date	Exercise price per Option
Non-Executive Directors					(note 21)	
Terence Willstead	1	1,666,667	–	24/02/11	\$0.050	\$0.36
	2	1,666,667	–	24/02/11	\$0.030	\$0.36
	3	1,666,666	–	24/02/11	\$0.020	\$0.36
	1	–	1,666,667	20/12/12	\$0.048	\$0.12
	2	–	1,666,667	20/12/12	\$0.048	\$0.12
	3	–	1,666,666	20/12/12	\$0.048	\$0.12
Stephen Fabian	1	833,333	–	24/02/11	\$0.050	\$0.36
	2	833,333	–	24/02/11	\$0.030	\$0.36
	3	833,334	–	24/02/11	\$0.020	\$0.36
Wayne Kernaghan	1	–	833,333	20/12/12	\$0.048	\$0.12
	2	–	833,333	20/12/12	\$0.048	\$0.12
	3	–	833,334	20/12/12	\$0.048	\$0.12
Executives						
Stephen Turner	1	833,333	–	24/02/11	\$0.05	\$0.36
	2	833,333	–	24/02/11	\$0.03	\$0.36
	3	833,334	–	24/02/11	\$0.02	\$0.36
Alan Doyle	1	–	833,333	20/12/12	\$0.05	\$0.12
	2	–	833,333	20/12/12	\$0.05	\$0.12
	3	–	833,333	20/12/12	\$0.05	\$0.12
Philip Hopkins	1	3,333,334	–	9/05/11	\$0.20	\$0.36
	2	3,333,333	–	9/05/11	\$0.10	\$0.36
	3	3,333,333	–	9/05/11	\$0.10	\$0.36
KMP						
Dion Cohen	1	833,333	–	24/02/11	\$0.05	\$0.36
	2	833,333	–	24/02/11	\$0.03	\$0.36
	3	833,334	–	24/02/11	\$0.03	\$0.36
	1	–	833,333	20/12/12	\$0.05	\$0.12
	2	–	833,334	20/12/12	\$0.05	\$0.12
	3	–	833,334	20/12/12	\$0.05	\$0.12
Total		22,500,000	12,500,000			

Terms of the options issued are detailed below:

- a) These options were granted under the Incentive Option Scheme (approved by Shareholders on 18 February 2011) to Directors and Management and were subject to the following vesting conditions:
- > One third of the options vested upon the Company's achievement of the production run rate over a continuous three month period of at least 800,000 tonnes per annum. This performance condition was not achieved at 30 June 2013.
 - > A further one third of the options vested upon the Company identifying a JORC compliant resource of iron ore reaching or exceeding 50,000,000 tonnes. This performance condition was achieved at 30 June 2013.

- > The final one third of the options vested upon the Company achieving a production run rate over a continuous twelve month period of at least 800,000 tonnes per annum. This performance condition was not achieved at 30 June 2013.

In addition to the vesting conditions set out above, the Exercise Condition that must be satisfied before the options can be exercised, is that the volume weighted average price of the Company's shares traded on the ASX during the five days prior to exercise of the options is at least \$0.50 per Share. These options were voluntarily cancelled on 23 January 2014.

Expiry date	Number of options lapsed/ cancelled	First exercise date	Last exercise date	Closing Balance	Number of options vested	% vested
31/12/15	–	28/2/2011 (a)	31/12/15	1,666,667	1,666,667	100%
31/12/15	–	23/12/2011 (a)	31/12/15	1,666,667	1,666,667	100%
31/12/15	–	23/12/2011 (a)	31/12/15	1,666,666	1,666,666	100%
15/11/17	–	31/12/2013 (c)	15/11/17	1,666,667	–	–
15/11/17	–	31/12/2014 (c)	15/11/17	1,666,667	–	–
15/11/17	–	31/12/2015 (c)	15/11/17	1,666,666	–	–
31/12/15	–	28/02/2011 (a)	31/12/15	833,333	833,333	100%
31/12/15	–	23/12/2011 (a)	31/12/15	833,333	833,333	100%
31/12/15	–	23/12/2011 (a)	31/12/15	833,334	833,334	100%
15/11/17	–	31/12/2013 (c)	15/11/17	833,333	–	–
15/11/17	–	31/12/2014 (c)	15/11/17	833,333	–	–
15/11/17	–	31/12/2015 (c)	15/11/17	833,334	–	–
31/12/15	–	28/02/2011 (a)	31/12/15	833,333	833,333	100%
31/12/15	–	23/12/2011 (a)	31/12/15	833,333	833,333	100%
31/12/15	–	23/12/2011 (a)	31/12/15	833,334	833,334	100%
15/11/17	–	31/12/2013 (c)	15/11/17	833,333	–	–
15/11/17	–	31/12/2014 (c)	15/11/17	833,333	–	–
15/11/17	–	31/12/2015 (c)	15/11/17	833,333	–	–
31/12/15	(3,333,334)	23/12/2011 (b)	31/12/15	–	–	–
31/12/15	(3,333,333)	23/12/2011 (b)	31/12/15	–	–	–
31/12/15	(3,333,333)	– (b)	31/12/15	–	–	–
31/12/15	–	28/02/2011 (a)	31/12/15	833,333	833,333	100%
31/12/15	–	23/12/2011 (a)	31/12/15	833,333	833,333	100%
31/12/15	–	23/12/2011 (a)	31/12/15	833,334	833,334	100%
15/11/17	–	31/12/2013 (c)	15/11/17	833,333	–	–
15/11/17	–	31/12/2014 (c)	15/11/17	833,334	–	–
15/11/17	–	31/12/2015 (c)	15/11/17	833,334	–	–
	(10,000,000)			25,000,000	12,500,000	

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

- > One third of the options vested upon the Company identifying a JORC compliant resource of iron ore reaching or exceeding 50,000,000 tonnes. This performance condition was not achieved at 30 June 2013.
- > A further one third of the options vested upon the Company achieving a production run rate over a continuous twelve month period of at least 800,000 tonnes per annum. This performance condition was not achieved at 30 June 2013.
- > The final one third of the options vesting upon the achievement of a production run rate of or exceeding 1.5mtpa ROM for the year ending 31 December 2013 and eligible participant remaining as an executive employee of the Company on 31 December 2013. This performance condition was not met during the financial year 30 June 2013 and hence this tranche did not vest and was subsequently cancelled.

c) These options were subject to the following vesting conditions (approved by shareholders on 16 November 2012):

- > One third of the options will vest if employed by the Company on 31 December 2013. This service condition was achieved by all Directors at 30 June 2014.
- > A further one third will vest if employed by the Company on 31 December 2014. This service condition was not achieved at 30 June 2014.
- > The final one third will vest if employed by the Company on 31 December 2015. This service condition was not achieved at 30 June 2014.

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

REMUNERATION REPORT (AUDITED) (CONTINUED)

Interest of Directors and Key Management Personnel

The number of ordinary shares in SAFM Limited held directly or indirectly by each Director and KMP of the Group at 30 June 2014 and 30 June 2013 are as follows:

30 June 2014	Balance at beginning of year '000	Issued on exercise of options during the year '000	Ordinary Shares Purchased '000	Balance at end of year '000
Terence Willstead	2,736	–	1,764	4,500
Stephen Fabian	44,599	–	–	44,599
Stephen Turner	61,690	–	–	61,690
Alan Doyle	65,914	–	–	65,914
Wayne Kernaghan	1,650	–	–	1,650
Rogério Caporali	–	–	–	–
Dion Cohen	477	–	–	477
Glauco Mol	958	–	–	958
José Paixão	–	–	–	–
Eduardo Freitas	–	–	–	–
	178,024	–	–	179,788

30 June 2013	Balance at beginning of year '000	Issued on exercise of options during the year '000	Ordinary Shares Purchased '000	Balance at end of year '000
Terence Willstead	2,736	–	–	2,736
Philip Hopkins	–	–	–	–
Stephen Fabian	44,599	–	–	44,599
Stephen Turner	61,690	–	–	61,690
Alan Doyle	64,914	–	1,000	65,914
Wayne Kernaghan	903	–	747	1,650
Dion Cohen	400	–	77	477
Jairo Leal	–	–	–	–
Glauco Mol	958	–	–	958
José Paixão	–	–	–	–
Eduardo Freitas	–	–	–	–
	176,200	–	1,824	178,024

Other Director and KMP Transactions

There were no other transactions relating to Directors & KMPs during the FY2014 period.

End of Audited Remuneration Report

INSURANCE OF DIRECTORS, OFFICERS AND AUDITOR

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

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

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

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

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

No premiums have been paid to indemnify the auditors.

GOING CONCERN

As at 30 June 2014, the Group had net current assets of \$4.01 million. As at the date of this report, the Company has drawn down \$15 million of the Deutsche Bank loan facility which is due to be repaid on 25 July 2015. The Board plans to renew the Deutsche Bank loan facility before it expires. If this is not renewed, the Board is confident that the Company will be able to source alternate funding which could be available, in combination with forecast operating cash flows, to repay the existing facility.

The directors acknowledge there is an inherent uncertainty in relation to achieving these outcomes, however have a reasonable expectation that the Company will have adequate resources to realize its assets in the normal course of business and to repay its obligations as and when they fall due for the next 12 months and therefore have prepared the financial statement on a going concern basis.

PROCEEDINGS OF BEHALF OF THE COMPANY

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

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under s307C of the *Corporations Act 2001* is included on page 38 of this financial report and forms part of this Directors' Report.

NON-AUDIT SERVICES

Ernst & Young, the Company's auditors, did not perform any other services other than their statutory audit duties.

ROUNDING

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

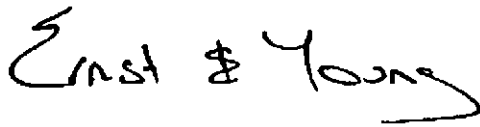
Signed in accordance with a resolution of the Directors.



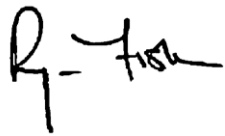
Stephen Turner
Managing Director
Sydney
16 September 2014

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF SOUTH AMERICAN FERRO METALS LIMITED

In relation to our audit of the financial report of South American Ferro Metals Limited for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Ryan Fisk
Partner
Sydney
16 September 2014



FINANCIAL STATEMENTS

CONTENTS

40	Consolidated Income Statement
40	Consolidated Statement of Comprehensive Income
41	Consolidated Statement of Financial Position
42	Consolidated Statement of Changes in Equity
43	Consolidated Statement of Cash Flows
44	Notes to the Financial Statements
83	Directors' Declaration
86	Additional Information for Listed Public Companies

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

	Note	30 June 2014 \$'000	30 June 2013 \$'000
<i>From continuing operations</i>			
Sales revenue	3	29,205	19,591
Cost of goods sold		(23,175)	(12,274)
Gross profit		6,030	7,317
Other income/(expenses)			
Other income	4	72	137
Finance income	4	32	55
Administrative and other expenses	5	(4,245)	(4,748)
Foreign exchange gain		554	(58)
Share-based payment expense	6	(611)	(172)
Finance costs	7	(1,901)	(47)
(Loss) / Profit before tax		(69)	2,484
Income tax expense	8	(1,219)	(802)
(Loss) / Profit after tax for the year attributable to members of the parent entity		(1,288)	1,682
Earnings per share (cents per share)			
– Basic earnings per share	10	(0.31)	0.41
– Diluted earnings per share	10	(0.31)	0.38

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

	30 June 2014 \$'000	30 June 2013 \$'000
(Loss)/Profit after tax for the year attributable to members of the parent entity	(1,288)	1,682
<i>Other Comprehensive Income which cannot be reclassified through the Income Statement</i>	–	–
<i>Other Comprehensive Income which can be reclassified through the Income Statement</i>		
Exchange differences on translating foreign controlled entities	(477)	709
Total comprehensive (loss) / income for the year, net of tax	(1,765)	2,391
Attributable to:		
Members of the parent entity	(1,765)	2,391

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2014

	Note	30 June 2014 \$'000	30 June 2013 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	11	3,438	411
Trade and other receivables	12	2,349	1,254
Prepayments	13	92	217
Inventories	14	3,280	3,941
Total current assets		9,159	5,823
Non-current assets			
Exploration and evaluation assets	15	9,588	4,300
Mining properties	16	7,439	7,628
Property, plant & equipment	17	17,647	13,384
Deferred tax asset	8	257	261
Other non-current assets	18	1,693	834
Total non-current assets		36,624	26,407
Total assets		45,783	32,230
LIABILITIES			
Current liabilities			
Trade and other payables	19	3,507	2,969
Taxation owing	8	382	657
Interest-bearing loans and borrowings	20	–	271
Provisions	21	1,193	995
Total current liabilities		5,082	4,892
Non-current liabilities			
Interest-bearing loans and borrowings	20	15,237	–
Provisions	21	3,501	4,943
Total non-current liabilities		18,738	4,943
Total liabilities		23,820	9,835
Net assets		21,963	22,395
SHAREHOLDERS' EQUITY			
Contributed equity	22	48,312	48,312
Share-based payment reserve	23	2,883	1,550
Foreign currency translation reserve	24	(5,365)	(4,888)
Accumulated losses	25	(23,867)	(22,579)
Total shareholders' equity		21,963	22,395

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2014

	Contributed Equity \$'000	Share Based payment reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Total Equity \$'000
At 1 July 2012	48,312	1,378	(5,597)	(24,261)	19,832
Profit for the Period	–	–	–	1,682	1,682
Other Comprehensive Income	–	–	709	–	709
Total Comprehensive profit for the year	–	–	709	1,682	2,391
Equity Transactions with Owners					
Share options expensed	–	172	–	–	172
At 30 June 2013	48,312	1,550	(4,888)	(22,579)	22,395
At 1 July 2013					
Loss for the Period	–	–	–	(1,288)	(1,288)
Other Comprehensive Income	–	–	(477)	–	(477)
Total Comprehensive profit for the year	–	–	(477)	(1,288)	(1,765)
Equity Transactions with Owners					
Share based payment expensed	–	1,333	–	–	1,333
At 30 June 2014	48,312	2,883	(5,365)	(23,867)	21,963

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2014

	Note	30 June 2014 \$'000	30 June 2013 \$'000
<i>Cash flows from operating activities</i>			
Receipts from customers		28,064	20,205
Payments and advances to suppliers and employees (exclusive of GST and other Brazilian taxes payable)		(22,913)	(16,862)
Payments for restricted cash		(859)	(463)
Taxation and other social taxes paid		(1,494)	(591)
Interest paid		(1,396)	(47)
Net cash flows from operating activities	27	1,402	2,242
<i>Cash flows from investing activities</i>			
Interest received		32	55
Payments for property, plant & equipment		(7,885)	(5,970)
Payments for exploration and evaluation assets		(5,371)	(1,609)
Net cash flows used in investing activities		(13,224)	(7,524)
<i>Cash flows from financing activities</i>			
Proceeds from borrowings		15,908	856
Payment of debt establishment		(1,145)	–
Repayment of borrowings		(271)	(592)
Net cash flows from financing activities		14,492	264
Net increase/(decrease) in cash held		2,670	(5,018)
Cash at the beginning of the financial period		411	5,403
Effects of exchange rates on cash holdings in foreign currencies		357	26
Cash and cash equivalents at the end of the year	11	3,438	411

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

1. CORPORATE INFORMATION

This annual report covers South American Ferro Metals Limited ("SAFM Limited" or the "Company") and the entities it controlled at the end of, or during, the year ended 30 June 2014 ("SAFM" or the "Group"). The presentation currency of the Group is Australian Dollars ("A\$").

South American Ferro Metals Limited owns 100% of the mineral rights and property of the Ponto Verde Iron Ore Project in Brazil. Ponto Verde is located in the heart of the Iron Ore Quadrilateral, 55 kilometres from the town of Belo Horizonte in the state of Minas Gerais. The Iron Ore Quadrilateral is a prolific iron ore mining area, and the Project is located proximate to established mining operations, iron and steel plants and existing infrastructure.

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

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

2. ACCOUNTING POLICIES

Basis of Preparation

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial report has also been prepared on a historical cost basis, except for concentrator feed and finished inventory which have been measured at net realisable value.

It is recommended that the annual financial report be considered together with any public announcements made by SAFM Limited during the year ended 30 June 2014 and up to the issue date of this report, which SAFM has made in accordance with its continuous disclosure obligations arising under the *Corporations Act 2001*.

Going Concern

As at 30 June 2014, the Group had net current assets of \$4.2 million. As at the date of this report, the Company has drawn down USD\$15 million of the Deutsche Bank loan facility which is due to be repaid on 25 July 2015. The Board plans to renew the Deutsche Bank loan facility before it expires. If this is not renewed, the Board is confident that the Company will be able to source alternate funding which could be available, in combination with forecast operating cash flows, to repay the existing facility.

The directors acknowledge there is an inherent uncertainty in relation to achieving these outcomes, however have a reasonable expectation that the Company will have adequate resources to realize its assets in the normal course of business and to repay its obligations as and when they fall due for the next 12 months and therefore have prepared the financial statement on a going concern basis.

Rounding of Amounts

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

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

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

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

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

a) Basis of Consolidation

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

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

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

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

Business Combinations and Goodwill

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

b) Foreign Currency Translation

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

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

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

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

On consolidation, assets and liabilities have been translated into AUD at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation

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

c) Cash and Cash Equivalents

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

d) Trade and other Receivables

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

e) Property, Plant and Equipment

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

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

Property & buildings:	4%
Plant and equipment:	between 10% – 12%
Furniture & fittings:	10%
Computer equipment:	20%
Motor vehicles:	20%
Decommissioning asset:	Production rate

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

2. ACCOUNTING POLICIES (continued)

e) Property, Plant and Equipment (continued)

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

The decommissioning asset is amortised over the expected remaining life of mine being 24 years, using the unit of production method based on proven and probable ore reserves. Land is not depreciated.

Major Maintenance and Repairs

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

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

Impairment

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

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

Decommissioning Asset

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

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

f) Mining Properties

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

Mining properties that are being depleted are amortised over the expected remaining life of mine being 24 years, using the unit of production method based on proven and probable ore reserves.

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

Impairment

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

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

g) Acquisition, Exploration, Evaluation and Development Costs

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

Directly attributed exploration and evaluation costs, including a portion of Directors and KMP remuneration, are capitalised into exploration and evaluation asset. This will be transferred to Mineral Asset once the technical feasibility and commercial viability of the expansion projects is demonstrable. These costs will then be depreciated on a unit of production basis of tonnes mined over the proven and probable reserves.

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

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

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation.

Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

h) Inventories

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

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

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

i) Employee Benefits

Equity Settled Compensation:

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

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

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

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

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

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

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

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

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

j) Provisions

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

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

Rehabilitation Provision

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

2. ACCOUNTING POLICIES (continued)

j) Provisions (continued)

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

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

k) Leased Assets

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

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

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

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

l) Financial assets

Initial Recognition and Measurement

Financial assets are categorised as financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, available for sale financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the categorisation of its financial assets at initial recognition. Categorisation is re-evaluated at each financial year end. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except where the instrument

is classified as "at fair value through profit or loss", in which case transaction costs are expensed to profit and loss immediately.

Subsequent Measurement

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

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

De-recognition of Financial Assets

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

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

Impairment of Financial Assets

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

Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually

assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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

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

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

m) Financial Liabilities

Initial Recognition

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

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

Subsequent Measurement

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

i) At fair value through profit & loss

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

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

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

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

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

ii) Loans and borrowings

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

2. ACCOUNTING POLICIES (continued)

m) Financial Liabilities (continued)

De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

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

n) Trade and other Payables

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

o) Interest Bearing Loans and Borrowings

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

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

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

p) Equity, Reserves and Dividend Payments

Share capital represents the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits.

Foreign currency translation differences arising on the translation of the Group's foreign entities are included in the translation reserve (see note 2 (b)).

Retained earnings include all current and prior period retained profits.

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

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

q) Earnings per Share

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

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

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

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

r) Income Tax

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

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

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

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

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

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

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

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

s) Goods and Services and Sales Tax

Australia

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

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

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

Brazil

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

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

t) Revenue

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

Sale of Goods

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

Interest

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

Dividends

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

u) Operating Segments

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

v) Significant Management Judgement in Applying Accounting Policies and Estimate Uncertainty

When preparing the financial statements management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

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

Deferred Tax

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

2. ACCOUNTING POLICIES (continued)

v) Significant Management Judgement in Applying Accounting Policies and Estimate Uncertainty (continued)

Decommissioning and Restoration Provision

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

Units of Production Depreciation

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

Exploration and Evaluation Expenditure

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of a Joint Ore Reserves Committee (JORC) resource is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available.

Inventories

Costs incurred in or benefits of the productive process are accumulated as stockpiles. Net realisable value tests are performed at least annually and represent the estimated future sales price of the product based on prevailing spot metals prices at the reporting date, less estimated costs to complete production and bring the product to sale. Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile. Stockpile tonnages are verified by periodic surveys.

Valuation of Share Based Payments

The key estimates and assumptions used in the valuation of share based payment plans are set out in note 2 (i) and note 22.

Impairment of Non-financial Assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The value in use calculation is based on a DCF model. The Fair Value is estimated based on discounted cash flows using market based commodity price and exchange assumptions, estimated quantities of recoverable minerals, production levels, operating costs and capital requirements, based on the Company's LOM plans. When LOM plans do not fully utilise the existing mineral resource and options exist for the future extraction and processing of all or part of those resources, an estimate of the value of unmined resources, in addition to an estimate of value of exploration potential, is included in the estimation of Fair Value.

The cash flows are derived from the budget for the next 24 years. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the forecast iron ore price used for extrapolation purposes. The key assumptions used to determine the recoverable amount of the Company and sensitivity analysis are outlined below:

- > **Discount rates:** Discount rates represent the current market assessment of the risks specific to the Company, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and is derived from the cost of equity. The cost of equity is derived from the expected return on investment by the Group's investors. The post-tax discount rate applied to the cash flow projections is 20%.
- > **Iron Ore Prices:** Iron ore prices are estimated with reference to external market forecasts and reviewed at least annually. The rates applied have regard to observable market data including spot and forward values, to market analysis including equity analyst estimates. A decrease of more than 5% in the long term iron ore price could result in a potential impairment.

w) New Accounting Standards and Interpretations

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

The Company has adopted all new and amended Australian Accounting Standards and AASB interpretations as at 1 July 2013.

PART A – Changes in Accounting Policy

The following standards and interpretations would have been applied for the first time for entities with years ending 30 June 2014:

Reference	Title	Application date of standard	Impact on Group financial report	Application date for Group
AASB 10	Consolidated Financial Statements AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 <i>Consolidated and Separate Financial Statements</i> dealing with the accounting for consolidated financial statements and UIG-112 <i>Consolidation – Special Purpose Entities</i> . The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to this and other standards via AASB 2011-7 and AASB 2012-10.	1 January 2013	No Material Impact	1 July 2013
AASB 12	Disclosure of Interests in Other Entities AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries with non-controlling interests.	1 January 2013	No Material Impact	1 July 2013
AASB 13	Fair Value Measurement AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	No Material Impact	1 July 2013

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

2. ACCOUNTING POLICIES (continued)

w) New Accounting Standards and Interpretations (continued)

Reference	Title	Application date of standard	Impact on Group financial report	Application date for Group
AASB 119	Employee Benefits The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the method of calculating the return on plan assets. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10.	1 January 2013	No Material Impact	1 July 2013
Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine This interpretation applies to stripping costs incurred during the production phase of a surface mine. Production stripping costs are to be capitalised as part of an asset. If an entity can demonstrate that it is probable future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of an ore body for which access has been improved. This asset is to be called the "stripping activity asset". The stripping activity asset shall be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate. Consequential amendments were also made to other standards via AASB 2011-12.	1 January 2013	No Material Impact	1 July 2013
AASB 2012-2	Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities AASB 2012-2 principally amends AASB 7 <i>Financial Instruments</i>: Disclosures to require disclosure of the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position, when all the offsetting criteria of AASB 132 are not met.	1 January 2013	No Material Impact	1 July 2013
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The standard addresses a range of improvements, including the following: > Repeat application of AASB 1 is permitted (AASB 1) > Clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 <i>Presentation of Financial Statements</i>)	1 January 2013	No Material Impact	1 July 2013

Reference	Title	Application date of standard	Impact on Group financial report	Application date for Group
AASB 1053	Application of Tiers of Australian Accounting Standards This standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements: a) Tier 1: Australian Accounting Standards b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirement. Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: a) For-profit entities in the private sector that have public accountability (as defined in this standard) b) The Australian Government and State, Territory and Local governments The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: a) For-profit private sector entities that do not have public accountability b) All not-for-profit private sector entities c) Public sector entities other than the Australian Government and State, Territory and Local governments. Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11, 2012-1, 2012-7 and 201211.	1 July 2013	No Material Impact	1 July 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements AASB 124 This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.	1 July 2013	No Material Impact	1 July 2013

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

2. ACCOUNTING POLICIES (continued)

w) New Accounting Standards and Interpretations (continued)

PART B – Accounting standards issued but not yet effective

The following standards and interpretations have been issued by the AASB but are not yet effective for the period ending 30 June 2014.

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2012-3	Amendments to Australian Accounting Standards – <i>Offsetting Financial Assets and Financial Liabilities</i>	AASB 2012-3 adds application guidance to AASB 132 <i>Financial Instruments: Presentation</i> to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	No Material Impact	1 July 2014
Interpretation 21	<i>Levies</i>	This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation.	1 January 2014	No Material Impact	1 July 2014
AASB 1055	<i>Budgetary Reporting</i>	This standard specifies budgetary disclosure requirements for the whole of government, General Government Sector (GGs) and not-for-profit entities within the GGs of each government. AASB 2013-1 removes the requirements relating to the disclosure of budgetary information from AASB 1049 (without substantive amendment). All budgetary reporting requirements applicable to public sector entities are now located in AASB 1055.	1 July 2014	No Material Impact	1 July 2014

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	<i>Financial Instruments</i>	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: > The change attributable to changes in credit risk are presented in other comprehensive income (OCI) > The remaining change is presented in profit or loss	1 January 2018	No Material Impact	1 July 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

2. ACCOUNTING POLICIES (continued)

w) New Accounting Standards and Interpretations (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9 (cont.)		If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10. The AASB issued a revised version of AASB 9 (AASB 2013-9) during December 2013. The revised standard incorporates three primary changes: 1. New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures 2. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of AASB 9 at the same time 3. In February 2014, the IASB tentatively decided that the mandatory effective date for AASB 9 will be 1 January 2018			
AASB 2013-3	<i>Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets</i>	AASB 2013-3 amends the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.	1 January 2014	No Material Impact	1 July 2014
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting [AASB 139]	AASB 2013-4 amends AASB 139 to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.	1 January 2014	No Material Impact	1 July 2014
AASB 2013-7	Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policyholders [AASB 1038]	AASB 2013-7 removes the specific requirements in relation to consolidation from AASB 1038, which leaves AASB 10 as the sole source for consolidation requirements applicable to life insurer entities.	1 January 2014	No Material Impact	1 July 2014

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
Annual Improvements 2010–2012 Cycle	Annual Improvements to IFRSs 2010–2012 Cycle	This standard sets out amendments to International Financial Reporting Standards (IFRS) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB. The following items are addressed by this standard: > IFRS 2 – Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'. > IFRS 3 – Clarifies the classification requirements for contingent consideration in a business combination by removing all references to IAS 37. > IFRS 8 – Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset to the entity's total assets. > IAS 16 & IAS 38 – Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts. > IAS 24 – Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of IAS 24 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.	1 July 2014	No Material Impact	1 July 2014

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

2. ACCOUNTING POLICIES (continued)

w) New Accounting Standards and Interpretations (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
Annual Improvements 2011–2013 Cycle	Annual Improvements to IFRSs 2011–2013 Cycle	This standard sets out amendments to International Financial Reporting. Standards (IFRS) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB. The following items are addressed by this standard: > IFRS 13 – Clarifies that the portfolio exception in paragraph 52 of IFRS 13 applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32. > IAS 40 – Clarifies that judgment is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of IFRS 3 that includes an investment property. That judgment is based on guidance in IFRS 3.	1 July 2014	No Material Impact	1 July 2014
AASB 1031	Materiality	The revised AASB 1031 is an interim standard that cross-references to other Standards and the <i>Framework</i> (issued December 2013) that contain guidance on materiality. AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.	1 January 2014	No Material Impact	1 July 2014
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	The Standard contains three main parts and makes amendments to a number Standards and Interpretations. Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1. Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards. Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 Hedge Accounting into AASB 9 <i>Financial Instruments</i>.	1 July 2014	No Material Impact	1 July 2014

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
IFRS 14	Interim standard on regulatory deferral accounts	This interim standard provides first-time adopters of IFRS with relief from derecognising rate-regulated assets and liabilities until a comprehensive project on accounting for such assets and liabilities is completed by the IASB. It is intended to encourage rate-regulated entities to adopt IFRS while bridging the gap with entities that already apply IFRS, but do not recognise regulatory deferral accounts.	1 January 2016	No Material Impact	1 July 2016
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.	1 January 2016	No Material Impact	1 July 2016

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

2. ACCOUNTING POLICIES (continued)

w) New Accounting Standards and Interpretations (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
IFRS 15	Revenue from Contracts with Customers	IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 supersedes: (a) IAS 11 Construction Contracts (b) IAS 18 Revenue (c) IFRIC 13 Customer Loyalty Programmes (d) IFRIC 15 Agreements for the Construction of Real Estate (e) IFRIC 18 Transfers of Assets from Customers (f) SIC-31 Revenue—Barter Transactions Involving Advertising Services The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation Early application of this standard is permitted.	1 January 2017	Impact not yet assessed	1 July 2017

3. SALES REVENUE

	30 June 2014 \$'000	30 June 2013 \$'000
Sales revenue	29,205	19,591

4. OTHER INCOME

	30 June 2014 \$'000	30 June 2013 \$'000
Interest Received	32	55
Other Income	72	137
	104	192

5. ADMINISTRATIVE AND OTHER EXPENSES

	30 June 2014 \$'000	30 June 2013 \$'000
Accounting fees	310	260
Auditors' remuneration (note 9)	120	93
Consulting fees	62	75
Depreciation not included cost of goods sold	22	6
Directors and Key Management Personnel remuneration / fees (a)	816	1,550
Rent	329	227
Legal fees	65	139
Travel and accommodation	64	930
Employee costs – Brazil Office	662	348
Inventory Write Off	503	–
Bad Debt Provision	9	87
Other administrative expenses	1,283	1,033
	4,245	4,748

(a) Directors and KMP remuneration and fees do not include share based payment and directly attributed remuneration capitalised into exploration and evaluation asset.

6. SHARE-BASED PAYMENT EXPENSE

	30 June 2014 \$'000	30 June 2013 \$'000
Directors and KMP	611	172
	611	172

Refer to note 22 for details on the valuation of share options.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

7. FINANCE COSTS

	30 June 2014 \$'000	30 June 2013 \$'000
Interest Paid	747	47
Amortisation of Loan Establishment Costs	855	–
Unwinding of Discount on Rehabilitation Provision (note 21)	299	–
	1,901	47

8. INCOME TAX EXPENSE

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

	30 June 2014 \$'000	30 June 2013 \$'000
(Loss) / Profit before tax	(69)	2,484
Statutory income tax rate for the Group	30%	30%
	(21)	745
Adjustment for tax rate differences in foreign jurisdictions	406	(956)
<i>Adjustment for non-deductible expenses:</i>		
– Other non-deductible expenses	834	75
Utilisation of tax losses not previously recognised	–	–
Deferred tax assets not brought to account in current financial year	–	938
Actual tax expense	1,219	802
<i>Income tax expense comprises of:</i>		
– Current tax expense	1,219	802
– Deferred tax income	–	–
	1,219	802

Tax Owing

Tax owing comprises of the following:

	30 June 2014 \$'000	30 June 2013 \$'000
Sales tax liabilities	46	378
Corporate tax liabilities	336	159
	382	537

8. INCOME TAX EXPENSE (CONTINUED)

Deferred Tax Asset

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

	Balance at beginning of year \$'000	Recognised in profit and loss \$'000	Balance at end of year \$'000
30 June 2014			
Temporary timing differences	215	–	215
Unused tax losses	172	21	193
Foreign Currency Translation Reserve	(126)	(25)	(151)
<i>Recognised as:</i>			
Deferred tax asset	261	(4)	257
30 June 2013			
Temporary timing differences	208	7	215
Unused tax losses	167	5	172
Foreign Currency Translation Reserve	(122)	(4)	(126)
<i>Recognised as:</i>			
Deferred tax asset	253	8	261

9. AUDITORS' REMUNERATION

	30 June 2014 \$'000	30 June 2013 \$'000
Remuneration of the auditor of the Australian operation for:		
– Audit and review of the financial report	81	51
Remuneration of the auditor of the Brazilian operation for:		
– Audit and review of the financial report	39	42
	120	93

10. EARNINGS PER SHARE

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

	30 June 2014 \$	30 June 2013 \$
Basic earnings per share (cents per share)	(0.31)	0.41
Diluted earnings per share (cents per share)	(0.31)	0.38
Net (loss) / profit attributable to ordinary shareholders (\$'000)	(1,288)	1,682
	Shares	Shares
Weighted average number of ordinary shares used in the calculation of basic earnings	409,147,659	409,147,659
Share Options (a)	–	29,130,000
Weighted average number of ordinary shares used in the calculation of diluted earnings	409,147,659	438,277,659

(a) Share Options and warrants outstanding at 30 June 2014 are anti-dilutive and therefore have not been included in the calculation of diluted earnings per share in the current period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

11. CASH AND CASH EQUIVALENTS

	30 June 2014 \$'000	30 June 2013 \$'000
Cash at bank	3,438	411

12. TRADE AND OTHER RECEIVABLES

	30 June 2014 \$'000	30 June 2013 \$'000
Trade debtors (a)	2,359	1,219
Provision for doubtful debt (b)	(97)	(89)
Tax refunds (c)	76	86
Other Receivables	11	38
	2,349	1,254

a) Trade debtors relate to the outstanding receipts from sales. Payment terms are either cash on delivery or for a maximum of 30 days for approved customers.

b) A provision for doubtful debt of \$97,087 has been provided at 30 June 2014 (2013: \$89,178).

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

13. PREPAYMENTS

	30 June 2014 \$'000	30 June 2013 \$'000
Prepayments	92	217

Prepayments relate to prepaid insurance of \$13,630 and R\$162,189 (\$78,045) relating to prepaid BFS consultants fees in Brazil.

14. INVENTORIES

	30 June 2014 \$'000	30 June 2013 \$'000
Raw material	168	590
Concentrator Feed	2,054	306
Consumable Stock	824	666
Finished goods	234	2,379
	3,280	3,941

Raw Material is valued at Cost at 30 June 2013 and 2014.

Concentrate Feed is valued at Net Realisable Value at 30 June 2013 and at cost at 30 June 2014.

Consumable Stock is valued at Cost at 30 June 2013 and 2014.

Finished goods are valued at Net Realisable Value at 30 June 2013 and 2014.

15. EXPLORATION AND EVALUATION ASSETS

	30 June 2014 \$'000	30 June 2013 \$'000
Opening Balance	4,300	2,617
Exploration expenditure capitalised		
– Exploration and evaluation phases	5,371	999
– Resource drilling program	–	611
Less		
– Amortisation	(26)	(14)
– Foreign exchange movement	(57)	87
	9,588	4,300

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

16. MINING PROPERTIES

30 June 2014	Cost \$'000	Accumulated Amortisation \$'000	Carrying Value \$'000
Mineral rights	7,706	267	7,439
	7,706	267	7,439

30 June 2014	Opening Carrying Value \$'000	Foreign currency translation reserve \$'000	Additions \$'000	Amortisation \$'000	Carrying Value \$'000
Mineral rights	7,628	122	–	67	7,439
	7,628	122	–	67	7,439

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

30 June 2013	Opening Carrying Value \$'000	Foreign currency translation reserve \$'000	Additions \$'000	Reversal (note 28) \$'000	Amortisation \$'000	Carrying Value \$'000
Surface rights (a)	2,317	–	–	2,317	–	–
Mineral rights	7,448	248	–	–	68	7,628
	9,765	248	–	2,317	68	7,628

a) In 2013, SAFM reversed the asset relating to the surface rights due to an on-going judicial process. Refer to Note: 28 Capital Commitment and Contingencies.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

17. PROPERTY, PLANT & EQUIPMENT

30 June 2014	Cost \$'000	Accumulated depreciation \$'000	Carrying Value \$'000
Decommissioning asset (a)	1,899	(74)	1,825
Plant	9,946	(1,400)	8,546
Land	5,571	–	5,571
Furniture & Fittings	181	(45)	136
Computer Hardware	125	(50)	75
Motor Vehicles	136	(83)	53
Machinery and Equipment	543	(83)	460
Software	81	(27)	54
Buildings	325	(29)	296
Laboratory	541	(78)	463
Work-in-progress	111	–	111
Mechanical Tools	59	(2)	57
Total cost	19,518	(1,871)	17,647

30 June 2014	Opening Carrying value \$'000	Foreign currency translation reserve \$'000	Additions \$'000	Adjust- ment \$'000	Disposals \$'000	Depre- ciation \$'000	Carrying Value \$'000
Decommissioning asset (a)	4,261	(92)	–	(2,314)	–	(30)	1,825
Plant	7,846	(116)	1,733	–	–	(917)	8,546
Land	–	58	5,513	–	–	–	5,571
Furniture & Fittings	135	(1)	20	–	–	(18)	136
Computer Hardware	60	1	37	–	(1)	(22)	75
Motor Vehicles	80	(2)	–	–	–	(25)	53
Machinery and Equipment	324	(3)	182	–	–	(43)	460
Software	64	(1)	5	–	–	(14)	54
Buildings	90	1	224	–	–	(19)	296
Laboratory	495	(9)	29	–	–	(52)	463
Work-in-progress	28	1	82	–	–	–	111
Mechanical Tools	–	1	58	–	–	(2)	57
	13,383	(162)	7,883	(2,314)	(1)	(1,142)	17,647

- a) The decommissioning and restoration represents Management's estimates of the decommissioning and restoration costs associated with the operation. It is expected that these costs will be incurred at the end of the life of the plant and mining operations. At 30 June 2014, the provisions have been calculated by estimating the cost of the decommissioning and restoration and extrapolating the estimates to the end of the estimated life of the project by applying an inflation rate of 6.3% per annum (2013: 6.5%). These estimates are then discounted to a present value, using a pre-tax discount of 10.9% per annum (2013: 7.9%). The decommissioning and restoration assets are amortised based on the current level of production at the mine over its estimated production life.

17. PROPERTY, PLANT & EQUIPMENT (continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

18. OTHER NON-CURRENT ASSETS

	30 June 2014 \$'000	30 June 2013 \$'000
Restricted cash	1,693	834

Restricted cash represents:

1. A total of \$454,941 represents funds set aside to pay for any future environmental rehabilitation of the mine. Monthly transfers to this account is calculated based on the lower of 0.025% of Revenue or R\$20,000 per month. These funds are available, subject to the approval of the District Attorney, throughout the life of mine, should the government require any rehabilitation to be performed at any stage during the life of mine.
2. A total of \$775,835 represents funds set aside to pay for the surface rights royalty that is calculated based on 1% of net revenue. This royalty is payable to the owner of surface rights upon resolution of the current ownership dispute (refer to Note 27 – Capital Commitments and Contingencies).
3. A total of \$462,165 represents funds provided for the TFRM Tax (Tariff for Control, Monitoring and Supervision of Activities of Research, Exploration, Production and Profiting from Mineral Resources).

19. TRADE AND OTHER PAYABLES

	30 June 2014 \$'000	30 June 2013 \$'000
Sundry creditors and accruals	242	458
Trade creditors	2,560	2,511
GST Payable	705	–
	3,507	2,969

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

20. INTEREST-BEARING LOANS AND BORROWINGS

	30 June 2014 \$'000	30 June 2013 \$'000
Bank debt (a)	–	271
Deutsche Bank Loan Facility (b)	16,249	–
Finance Costs (c)	(1,012)	–
	15,237	271

- a) On 25 February 2013, SAFM obtained a loan with Itau Bank for \$396,547 at 16.32% of which \$271,417 remained outstanding at 30 June 2013.
- b) On 25 July 2013, SAFM entered into financing agreements with Deutsche Bank for a two year loan of US\$15 million. The terms and conditions include:
 - Maturity date of 25 July 2015;
 - No capital repayments during the term of the loan;
 - 3% upfront fee;
 - Interest of 11% per annum payable quarterly in arrears; and
 - Fixed and floating security charges over assets of SAFM Limited, SAFM BVI and SAFM Mineracao Limitada.

As part of this facility, SAFM has issued Deutsche Bank 20.4 million, 5 year warrants representing 5% of its issued share capital at an exercise price of 7.3 cents per share. The loan was fully drawn down on 25 July 2013 and there are no scheduled capital repayments until the date of maturity which is 25 July 2015.
- c) Finance Costs relate to Loan Establishment Fee, Due Diligence Costs and Documentation expenses relating to the Deutsche Loan Facility including, 20.4 million, 5 year warrants representing 5% of its issued share capital at an exercise price of 7.3 cents per share.

21. PROVISIONS

	30 June 2014 \$'000	30 June 2013 \$'000
Current provisions		
Employee benefits (a)	601	502
Tax Provision (b)	562	356
Other provisions (c)	30	137
	1,193	995
Non-current provisions		
Rehabilitation provision (d)	2,416	4,524
Royalty payment provision (e)	737	419
Tax Provision (b)	162	–
Other Provision (f)	186	–
	3,501	4,943
The current provisions comprise the following:		
<i>Employee benefits</i>		
Opening balance	502	416
Foreign exchange movement	(1)	8
Provision recognised during the year	1,090	924
Provision utilised during the year	(990)	(846)
Closing balance	601	502
<i>Tax Provision</i>		
Opening balance	356	–
Foreign exchange movement	(3)	8
Provision recognised during the year	405	415
Provision utilised during the year	(196)	(67)
Closing balance	562	356
The non-current provisions comprise the following:		
<i>Rehabilitation provision</i>		
Opening balance	4,524	1,633
Foreign exchange movement	(93)	121
Unwinding of the discount	299	136
Provision adjustment	(2,314)	2,634
Closing balance	2,416	4,524
<i>Royalty payment provision</i>		
Opening balance	419	206
Foreign exchange movement	(3)	12
Provision recognised during the year	321	234
Provision utilised during the year	–	(33)
Closing balance	737	419
<i>Tax Provision</i>		
Opening balance	–	–
Foreign exchange movement	2	8
Provision recognised during the year	160	415
Provision utilised during the year	–	(67)
Closing balance	162	356

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

21. PROVISIONS (continued)

- a) The Employee Benefits provision represents accrued annual leave and 13th cheque payable to all SAFM Brazil employees.
- b) Tax Provision represents TFRM (Taxa Estadual de Recursos Minerais) tax payable to the Brazilian Revenue Office.
- c) Current Other Provisions relate to travel expenses.
- d) The rehabilitation provision represents Management's estimates of the decommissioning and restoration costs associated with the operation. It is expected that these costs will be incurred at the end of the life of the plant and mining operations. At 30 June 2014, the provisions have been calculated by estimating the cost of the decommissioning and restoration and extrapolating the estimates to the end of the estimated life of the project by applying an inflation rate of 6.3% per annum (2013: 6.50%). These estimates are then discounted to a present value, using a pre-tax discount of 10.9% per annum (2013: 7.9%). The decommissioning and restoration assets are amortised based on the current level of production at the mine over its estimated production life.
- e) The Royalty payments provision represents a surface rights royalty that is calculated based on 1% of net revenue. This royalty is payable to the owner of surface rights upon resolution of the current ownership dispute (note 27).
- f) Non-current Other Provisions relate social obligation fees.

22. CONTRIBUTED EQUITY

There were no movements in contributed equity for the year:

	30 June 2014	30 June 2013
Shares on issue	409,147,659	409,147,659
Contributed Equity (\$'000)	48,312	48,312

The issued shares above rank pari-passu in all respects with existing ordinary shares.

Ordinary Shares

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

Capital Management

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

Listed Options

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

	30 June 2014 ('000)	30 June 2013 ('000)
Opening balance	22,431	22,431
Options exercised	—	—
Options granted	—	—
Closing balance	22,431	22,431

Unlisted Options

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

	2014 (‘000)	2014 Weighted average fair value per option (\$)	2013 (‘000)	2013 Weighted average fair value per option (\$)
Opening balance	29,130	0.04	31,630	0.04
Options granted to Directors and KMP (a)	29,000	0.03	12,500	0.05
Options granted to Deutsche Bank (b)	20,457	0.04	–	–
Options exercised	–	–	–	–
Options forfeited / cancelled (c)	(17,500)	(0.04)	(15,000)	(0.04)
Closing balance	61,087	0.04	29,130	0.04

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

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

a) Options granted to Directors and KMP

During FY2014, the following share options were issued to Directors and KMP:

Grant date	24/10/2013	27/11/2013	27/11/2013	23/01/2014
Number of share options	4,000,000	20,000,000	2,500,000	2,500,000
Exercise price at grant date	\$0.07	\$0.07	\$0.12	\$0.07
Expiry date	23/10/2018	26/11/2018	26/11/2018	23/10/2018
Share price at date of grant	\$0.08	\$0.06	\$0.06	\$0.07
Volatility	70%	70%	70%	70%
Option life (years)	5	5	5	5
Dividend yield	–	–	–	–
Risk free investment rate	2.5%	2.5%	2.5%	2.5%
Weighted average fair value at grant date *	\$0.035	\$0.026	\$0.026	\$0.035

These options vest in three equal tranches based on performance milestones and exercise condition being reached. Refer to the remuneration report for further details on and vesting and exercise conditions.

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

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

b) As part of the Deutsche Bank Loan Facility, SAFM has issued Deutsche Bank 20.4 million, 5 year warrants representing 5% of its issued share capital at an exercise price of 7.3 cents per share.

c) Options cancelled

On 23 January 2014, SAFM's Board of Directors approved the cancellation of 17,500,000 share options issued to Directors and KMP.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

23. SHARE-BASED PAYMENT RESERVE

	30 June 2014 \$'000	30 June 2013 \$'000
Opening balance	1,550	1,378
Capitalised Warrants	722	–
Share-based payment expense	611	172
Closing balance	2,883	1,550

The Share-Based Payment Reserve records the total share-based amortisation expense.

24. FOREIGN CURRENCY TRANSLATION RESERVE

	30 June 2014 \$'000	30 June 2013 \$'000
Opening balance	(4,888)	(5,597)
Exchange differences on translating foreign controlled entities	(477)	709
Closing balance	(5,365)	(4,888)

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

25. ACCUMULATED LOSSES

	30 June 2014 \$'000	30 June 2013 \$'000
Opening balance	(22,579)	(24,261)
(Loss) / Profit after tax attributable to the equity holders of the parent during the year	(1,288)	1,682
Closing balance	(23,867)	(22,579)

26. OPERATING SEGMENTS

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

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

Geographic Information

	30 June 2014 \$'000	30 June 2013 \$'000
<i>Revenue from External Customers</i>		
Australia	–	–
Brazil	29,205	19,591
Total Revenue per consolidated statement of profit / (loss)	29,205	19,591

All sales during FY 2014 were made to customers located in Brazil.

	30 June 2014 \$'000	30 June 2013 \$'000
<i>Non-Current Assets</i>		
Australia	4,710	1,274
Brazil	31,914	25,133
Total Non-Current Assets	36,624	26,407

Non-Current Assets for this purpose consist of property, plant and equipment, mining rights and intangible assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

27. RECONCILIATION OF CASHFLOWS FROM OPERATING ACTIVITIES

	30 June 2014 \$'000	30 June 2013 \$'000
(Loss)/Profit before income tax	(69)	2,484
Adjusted for:		
Non-cash items:		
Unrealised FX gains and losses	(578)	–
Inventory net realisable write down	40	447
Provision for bad debt	9	87
Depreciation, amortisation and impairment	2,090	615
Accrued Interest expense / (income)	1,704	(55)
Unwinding of the discount in the rehabilitation provision	299	136
Share based payment expense	611	172
Change in trade and other receivables	(1,104)	561
Change in inventories	621	(3,434)
Change in prepayments	126	(201)
Change in trade and other payables	397	1,957
Change in provisions	1,005	527
Add back taxation paid	(1,494)	(592)
Add back other income / interest paid	(1,396)	–
Add back restricted cash payments	(859)	(462)
Net cash from operating activities	1,402	2,242

28. CAPITAL COMMITMENTS AND CONTINGENCIES

SAFM Brazil

	30 June 2014 \$'000	30 June 2013 \$'000
Contracted for	–	431
Authorised but not contracted for	17,352	–
	17,352	431

Capital Commitments relate mainly to the planned domestic expansion. Refer to 'Future developments, prospects and business strategies' in the Directors' report.

Contingent Asset & Liability

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

At this time a liability was recognised for the Surface Rights Instalment, and a corresponding asset, on the basis that it was believed that the transfer of the surface rights would be executed imminently and SAFM had the right of use and enjoyment of the surface rights. However his name did not appear on the property register (nº 8797 of 16 December of 1991) and this payment was not effected. The vendor is currently following a judicial process through the Brazilian Courts to ascertain the legal owner of these rights. SAFM is not a party to this process.

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

In the event that the vendor is awarded the surface rights, SAFM will settle the surface rights instalment and record the surface rights as a fixed asset in its books. In the meantime, SAFM is required to pay a royalty of 1% on net revenues until the title to the surface rights have been transferred. As the owner of the surface rights has not yet been established, SAFM currently deposits this amount into a restricted escrow account on a monthly basis (refer note 18).

29. PARENT COMPANY INFORMATION

SAFM Holdings Limited	30 June 2014 \$'000	30 June 2013 \$'000
Current assets	4,889	1,507
Total assets	62,108	44,889
Current liabilities	16,255	1,504
Total liabilities	20,211	2,004
Contributed equity	52,158	52,158
Accumulated losses	(13,616)	(10,890)
Foreign currency translation reserve	–	67
Share based payment reserve	2,883	1,550
Total shareholders' equity	41,425	42,885
Loss of the parent entity	(2,727)	(3,378)
Total comprehensive loss of the parent entity	(2,727)	(3,378)
Guarantees entered into by the parent entity in relation to the debts of its subsidiaries	–	–
Capital Commitments – refer to note 27 for further details	–	–

30. EVENTS AFTER THE END OF REPORTING PERIOD

Memorandum of Understanding on Adjacent Property

On 9 July 2014, SAFM announced that it has entered into a Memorandum of Understanding ("MOU") with the owners of the property adjacent to its Ponto Verde iron ore project.

The MOU sets out on a non-binding basis the fundamentals for the negotiation regarding a possible agreement between the parties allowing SAFM to mine the ore body located on the eastern side of its tenement in the property Sapeca do Sul, contiguous with the SAFM Ponto Verde mine.

The MOU allows SAFM to use Drill Hole Survey Data from this property in order to build a new and enlarged block model for the possible expansion of the SAFM Ponto Verde mine. SAFM is currently re-evaluating the overall scope of its current Bankable Feasibility Study ("BFS") in light of this additional information with a view to enlarging the initial reserve for mining.

JORC Resource

On 8 September 2014, SAFM announced that its JORC Mining Resource has increased by 34%, from 301.1 Mt to 403.71 Mt. This additional resource information has been gathered from an additional 12 diamond drill and 162 samples from 584.5 metres of trenching which confirms the continuity of mineralization.

SAFM is currently re-evaluating the overall scope of its current Bankable Feasibility Study (BFSD) in light of this additional information with a view to enlarging the initial reserve for mining. The majority of the updated Resource has been calculated to an average depth of 70 metres below the surface. However, exploration drilling at depth has highlighted that mineralisation extends to over 320 metres depth. Based on this, SAFM will plan a drilling program to target the core of the deposit at depth which will have the potential to further increase the size of the deposit.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

31. RELATED PARTY TRANSACTIONS

The following represents the related party transactions in the Group:

Key Management Personnel Compensation

The aggregate compensation made to Directors and KMP of the Group is set out below:

	30 June 2014 \$'000	30 June 2013 \$'000
<i>Fixed</i>		
Salary, fees and leave ¹	2,175	1,768
Other fees ²	128	85
Termination Payments	88	–
Superannuation ³	67	69
<i>Short term incentives</i>		
Incentive payments	–	59
<i>Long term incentives</i>		
Share based payment (equity settled) ⁴	611	171
Total KMP compensation	3,069	2,152

1. The remuneration in Brazil has been converted at an exchange rate for the year ended of 30 June 2014 of R\$/\$: 0.4762 at 30 June 2014.

2. These amounts represent additional work undertaken for the Company, including accounting, administration and management services charged.

3. Includes superannuation payment in Australia and any voluntary fee sacrifice to superannuation.

4. The Share-Based Payments comprise of options over ordinary shares in the Company and have been valued based on the Binomial options pricing model using a Monte Carlo simulation analysis.

The compensation of each member of the KMP of the Group for the current and prior year is set out within the Remuneration Report

The Share-based payments amount represents the cumulative impact of amortising the accounting value of options and performance rights over their three year vesting period, including the impact of forfeitures recognised during the period.

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	
		30 June 2014	30 June 2013	30 June 2014 \$'000	30 June 2013 \$'000
South American Ferro Metals Limited	British Virgin Islands	100%	100%	8,517	8,517
SAFM Mineracao LTDA	Brazil	100%	100%	19,153	19,153

Transactions with Related Parties

There were no other related parties transactions during the FY2014 period.

32. FAIR VALUE MEASUREMENT

The carrying amounts and fair values of interest bearing liabilities at 30 June 2014:

	30 June 2014		30 June 2013	
	Carrying Amount \$'000	Fair Value \$'000	Carrying Amount \$'000	Fair Value \$'000
On Balance Sheet				
<i>Non traded financial liabilities</i>				
Interest bearing loan	15,237	16,249	271	271

Fair Value Hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- > Level 1 – Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities.
- > Level 2 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable).
- > Level 3 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

For financial instruments that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The interest bearing loan is valued as Level 2.

33. FINANCIAL RISK MANAGEMENT

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

Exposure to credit risk, liquidity risk, foreign currency risk, interest rate risk and commodity price risk arises in the normal course of the Group's business. The Group's risk management strategy is set by and performed in the close co-operation with the Board and focuses on actively securing the Group's short to medium-term cash flows by limiting credit risk of customers, regular review of its working capital and minimising the exposure to financial markets. The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

Financial Assets and Liabilities

The financial assets and liabilities for financial years 2013 and 2014 are reflected at amortised cost, and are not fair valued through the Statement of comprehensive income.

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

Specific Financial Risk Exposures and Management

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

a) Credit risk

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

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contractual obligations that could lead to a financial loss to the Group. Credit risk is managed through the maintenance of credit assessment and monitoring procedures and it is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

33. FINANCIAL RISK MANAGEMENT (continued)

Specific Financial Risk Exposures and Management (continued)

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

Trade Receivables

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

Trade and other receivables that fall into the category past due, not impaired are considered to be of high credit quality. The trade and other receivables are regularly assessed for impairment. A provision for doubtful debt of \$97,087 has been provided at 30 June 2014 (2013: \$89,178).

Cash and Restricted cash

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

Other Receivables

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

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

	30 June 2014 \$'000	30 June 2013 \$'000
Financial assets		
Cash and cash equivalents	3,438	411
Trade and other Receivables	2,349	1,130
Restricted cash	1,693	834
Total	7,480	2,375

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

	Total \$'000	0-30 days \$'000	31-60 days PDNI* \$'000	61-90 days PDNI* \$'000	91-120 days PDNI* \$'000	Over 120 days PDNI* \$'000	Over 120 days \$'000 Impaired [^]
Total receivables 30 June 2014	2,349	2,324	122	–	–	–	(97)
Total receivables 30 June 2013	1,130	1,198	–	–	3	18	(89)

* Past due not impaired ("PDNI").

[^] A provision for doubtful debt of \$97,087 has been provided at 30 June 2014 (2013: \$89,178).

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

a) Liquidity Risk

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

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

Consolidated	30 days \$'000	1-3 months \$'000	3-12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
As at 30 June 2014						
Trade and other payables	3,507	–	–	–	–	3,507
Interest Payable	–	–	1,774	121	–	1,895
Loans and Borrowings	–	–	–	16,249	–	16,249
Total liabilities	3,507	–	1,774	16,370	–	21,651
As at 30 June 2013						
Trade and other payables	2,969	–	–	–	–	2,969
Loans and Borrowings	32	66	173	–	–	271
Total liabilities	3,001	66	173	–	–	3,240

b) Foreign Currency Risk

The following table represents the financial assets and liabilities denominated in foreign currencies that are different to the functional currency of the respective group entities:

Consolidated	Foreign currency amount		Amount in \$		Rates of exchange	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Financial assets						
<i>Cash and cash equivalents</i>						
– US Dollar	454	55	481	59	\$/US\$ 1.06	\$/US\$ 1.09
Financial liabilities						
<i>Trade and other payables</i>						
– US Dollar	21	4	23	4	\$/US\$ 1.06	\$/US\$ 1.09
<i>Interest Bearing Loans</i>						
– US Dollar	14,933	–	15,838	–	\$/US\$ 1.06	\$/US\$ 1.09

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

	30 June 2014 \$'000	30 June 2013 \$'000
Effect on profit before tax		
\$/US\$ + 10%	(1,538)	2
\$/US\$ – 10%	1,538	(2)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

33. FINANCIAL RISK MANAGEMENT (continued)

Other Receivables (continued)

c) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group is not exposed to interest rate movement through the borrowing facilities of US\$15 million (\$15.9 million) at year end (June 2013: \$271,417) at a fixed rate of 11% per annum.

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

	Variable interest \$'000	Fixed interest \$'000
2014		
Financial assets		
Cash and cash equivalents	3,438	–
Restricted cash	1,693	–
Financial liabilities		
Interest-bearing loans and borrowings	–	15,237
Total	5,131	15,237
2013		
Financial assets		
Cash and cash equivalents	411	–
Restricted cash	834	–
Financial liabilities		
Interest-bearing loans and borrowings	–	271
Total	1,245	271

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

	30 June 2014 \$'000	30 June 2013 \$'000
Impact on pre-tax profit		
Interest rates + 1%	51	12
Interest rates – 1%	(51)	(12)

c) Commodity Price Risk

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

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

The Group is exposed to commodity price risk through the movement in contract iron ore prices that are based on an international iron ore index. SAFM has not entered into any forward commodity price contracts as at 30 June 2014 and is currently fully exposed to commodity price risk.

COMPANY DETAILS

The registered office of the Company is:

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

The principal places of business are:

Australia Office

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

Brazil Office

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

DIRECTORS' DECLARATION

The Directors of South American Ferro Metals Limited declare that:

1. the consolidated financial statements and notes, as set out on pages 36 to 77 are in accordance with the *Corporations Act 2001*, and:
 - a) comply with Australian Accounting Standards (including the Australian Accounting Interpretations and the *Corporations Regulations 2001*); and
 - b) give a true and fair view of the financial position as at 30 June 2014 and of its performance for the financial year ended on that date;
2. the Managing Director and Chief Financial Officer have each declared that:
 - a) the financial records of the Company for the financial year have been properly maintained in accordance with s 286 of the *Corporations Act 2001*;
 - b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c) the financial statements and notes for the financial year give a true and fair view;
3. In the Directors' opinion there are reasonable grounds to believe that South American Ferro Metals Limited will be able to pay its debts as and when they become due and payable.
4. The consolidated financial statements comply with International Reporting Standards.
5. This declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Board



Stephen Turner
16 September 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH AMERICAN FERRO METALS LIMITED

Report on the financial report

We have audited the accompanying financial report of South American Ferro Metals Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 judgment, 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 controls 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 controls. 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. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

- a. the financial report of South American Ferro Metals Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Emphasis of Matter

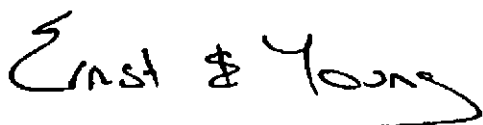
Without qualifying our opinion, we draw attention to Note 2 in the financial report which describes the principal conditions relating to additional funding being required by the consolidated entity. This condition indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the remuneration report

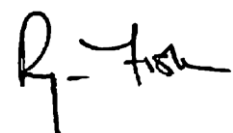
We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

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



Ernst & Young



Ryan Fisk

Partner

Sydney

16 September 2014

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 9 September 2014.

A. SUBSTANTIAL SHAREHOLDERS

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

Shareholder	Number of shares	% Holding
MASSIF LIMITED C/O ALLIANCE INVESTMENTS	44,598,804	10.90
TOPIX MANAGEMENT LTD	43,836,784	10.71
TIN ZONE HOLDINGS LTD	40,612,140	9.93
HSBC CUSTODY NOMINEES (AUSTRALIA) LTD	32,625,695	7.97
SUN WING GROUP LTD	31,838,565	7.78
MR MICHAEL LESLIE COHEN	23,263,403	5.69

B. DISTRIBUTION OF SHARES

Category (size of holding)	Total Holders	Units	% of Issued Capital
1 – 1,000	22	2,745	0.00
1,001 – 5,000	66	261,931	0.06
5,001 – 10,000	111	1,008,765	0.25
10,001 – 100,000	379	16,448,107	4.02
100,001 – max	182	391,426,111	95.67
Total	760	409,147,659	100.00

The number of shareholdings held in less than marketable parcels is 2,177,904 held by 267 shareholders.

C. UNLISTED OPTIONS

The total number of unlisted options in issue is 29.13 million which are issued to Directors and KMP.

D. VOTING RIGHTS

All shares carry one vote per unit without restriction.

TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest shareholders are:

	Shareholders	Number of shares held	% Holding
1	MASSIF LIMITED C/O ALLIANCE INVESTMENTS	44,598,804	10.90
2	TOPIX MANAGEMENT LTD	43,836,784	10.71
3	TIN ZONE HOLDINGS LTD	40,612,140	9.93
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LTD	32,625,695	7.97
5	SUN WING GROUP LTD	31,838,565	7.78
6	MR MICHAEL LESLIE COHEN	23,263,403	5.69
7	JP MORGAN NOMINEES PTY LIMITED	19,931,150	4.87
8	CITICORP NOMINEES PTY LIMITED	12,694,429	3.10
9	AFRO PACIFIC CAPITAL PTY LTD	11,729,992	2.87
10	PERSHING AUSTRALIA NOMINEES PTY LTD	10,000,000	2.44
11	ARGONAUT SECURITIES PTY LIMITED	10,000,000	2.44
12	ASD SERVICES LIMITED	8,500,000	2.08
13	PACIFIC RESOURCES SECURITIES LIMITED	5,471,492	1.34
14	PATERMAT PTY LTD	4,500,003	1.10
15	RODRIGO BRANCO	4,103,620	1.00
16	KERRIBEE PTY LTD	4,026,384	0.98
17	MARGARET JANE HUBBARD	3,830,044	0.94
18	VALLIANT RESOURCES LIMITED	3,187,148	0.78
19	IBARRA INVESTMENTS LTD	3,109,320	0.76
20	ST EMILION HOLDINGS PTY LTD	2,915,635	0.71

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

SOUTH AMERICAN FERRO METALS LIMITED

CORPORATE DIRECTORY

ABN 27 128 806 977

Directors

Terence Willstead (Chairman)
Stephen Turner (Managing Director)
Stephen Fabian
Alan Doyle
Wayne Kernaghan
Rogério Caporali

Company Secretary

Dion Cohen

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Investment Bankers

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