



**ANNUAL REPORT
FOR THE YEAR ENDED
30 JUNE 2010**

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Corporate Information

ABN 31 099 355 790

This annual report covers International Ferro Metals Limited and the entities it controlled at the end of, or during, the year ended 30 June 2010. The functional currency of each entity in the Group and the presentation currency of the Group is South African Rand (“ZAR”).

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report on pages 9 to 22. The directors' report is not part of the financial report.

Directors

D C Kovarsky
X Yang
J F J Muller
A J Grey
S J Turner
T V Willsteed
S D Oke
T Xia
J C Ballard

Company Secretary

W J Kernaghan

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Share Register

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National Bank of Australia
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Solicitors

Baker & McKenzie
Level 27, AMP Centre
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Australia, 2000

Brokers

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Auditors

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

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

CORPORATE PROFILE

International Ferro Metals (IFM) is an integrated ferrochrome producer listed on the London Stock Exchange (LSE: IFM).

The Company's mission is to develop and operate sustainable, profitable and efficient mining and mineral processing operations, with the emphasis being on the production of mineral products for the international steel industry. In the process, the Company strives to utilise ethically, environmentally and socially responsible methods.

IFM produces ferrochrome from chromite ore located in the Bushveld Igneous Complex, one of the world's richest mineral repositories and largest ferrochrome producing regions in the world. IFM's Lesedi chromite mine and integrated beneficiation and smelting operations are situated at Buffelsfontein, 100km north-west of Johannesburg, South Africa.

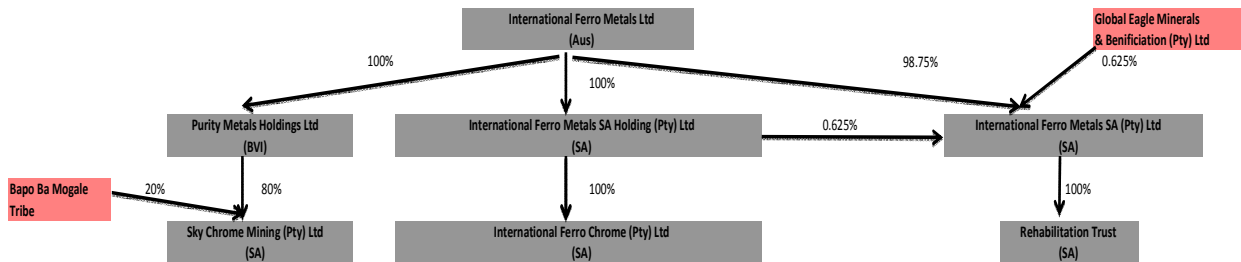
Ferrochrome is an essential ingredient in stainless steel production. The demand for ferrochrome is expected to be strong in the long term owing to industrial growth and demand for stainless steel, particularly in China. Unlike nickel, ferrochrome cannot be substituted in stainless steel due to its unique properties.

The total operating capacity of IFM is approximately 267,000 tonnes of ferrochrome per annum. In 2008, IFM embarked on the second phase expansion to produce 660,000 tonnes of ferrochrome per annum. These plans have, however, been suspended as IFM are awaiting a feasibility study from Eskom on future electricity supply in South Africa and appropriate market conditions.

IFM's strategic relationship with its major shareholder, JISCO, provides a valuable off-take agreement for its product. The Company is also a party to an off-take agreement with CMC Cometals, a New York listed metals trader.

In August 2009, the Company embarked on the construction of its Clean Development Mechanism ("CDM") compliant electricity co-generation plant. IFM aims to generate an average of about 13.7 MW, being 11% of IFM's overall electricity requirements, which will reduce costs and allow the Company to achieve 100% production capacity once Eskom electricity constraints are legislated. The expected commissioning date of the project is the end of October 2010.

In addition, the Directors intend to evaluate the various corporate opportunities that exist to take advantage of the Company's position and commercial relationships in the ferroalloys industry. These opportunities may include expansion beyond the ferrochrome market.



INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

CORPORATE GOVERNANCE

International Ferro Metals Limited is committed to maintaining high standards of corporate governance. The Directors have, so far as it is possible given the Company's size and the composition of the Board, complied with the Combined Code for the financial year ended 30 June 2010. In addition, the Company has complied with the Australian corporate governance requirements applicable to a company which is not listed on the Australian Securities Exchange.

The Board of Directors

As at 30 June 2010, the Board of Directors comprised of nine directors. Currently there are three executive directors and six non-executive directors, of which three are considered to be independent. It is the Board's policy to maintain independence by having at least two independent non-executive directors on the Board. The independent non-executive directors are Mr S Oke, Mr T Willsteed and Mr J Ballard. Mr Ballard joined the Board of IFM on 9 March 2010 following the retirement of Mr Watson on 12 November 2009. Ms T Xia, a non-executive director and Mr X Yang are not considered independent as they are representatives of JISCO, a major shareholder and customer of IFM. Mr Yang is also an executive of International Ferro Metals SA (Pty) Ltd (IFMSA). The Board believes Ms Xia and Mr Yang provide a valuable contribution to the Company through their experience in the ferrochrome and steel industries. Mr Grey and Mr Turner are not considered to be independent non-executive directors as they have held executive positions during previous financial years.

Mr Grey, as non-executive Chairman of the Company, is considered the lead director and utilises his experience, skills and leadership abilities to facilitate the governance process. Inside the boardroom, Mr Grey is responsible for the chairing of meetings and providing guidance to Board members, while outside the boardroom he serves as the spokesperson for the Company and as the major point of contact between the Board and the CEO. As CEO, Mr D Kovarsky, who is based in South Africa, is responsible for the attainment of the Company's future goals and visions, in accordance with the strategies, policies, programmes and performance requirements approved by the Board. The CEO's primary objective is to ensure the ongoing success of the Company through the effective management and development of all aspects of the Company. The roles of the Chairman and CEO are separate and their responsibilities are clearly set out in writing.

During the year Mr Muller, who is also the Chief Financial Officer, joined the board as Finance Director on 18 March 2010. This further enhanced the Company's commitment to sustainable financial reporting and governance.

The Board of Directors is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable. The primary responsibilities of the Board include:

- formulating and approving the strategic direction, objectives and goals of the Company;
- monitoring the financial performance of the Company, including the approval of the Company's annual financial statements;
- ensuring that adequate internal control systems and procedures are in place and that compliance with these is maintained;
- identifying significant business risks and ensuring that such risks are adequately managed;
- reviewing the performance and remuneration of executive directors; and
- establishing and maintaining appropriate ethical standards.

To enable the Board to perform its duties, each director has full access to all relevant information and to the services of the Company Secretary. If necessary, the non-executive directors may take independent professional advice at the Company's expense. This service was utilised during the financial year to review the Company's remuneration report and compliance with Australian Corporations Act rules and rules associated with LSE listed companies.

Mr Willsteed has been appointed Senior Independent Director and, as such, his main duties are to understand and address the concerns of major shareholders if these concerns cannot be resolved by the Chairman or the other executive directors and to meet with other non-executive directors.

Areas of non-compliance

During the financial year, the Company continued to comply with the applicable recommendations of the Combined Code, save as noted below. The Chairman is not independent within the terms of the Combined Code. The Board

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

considers Mr Grey's continued involvement as non-executive Chairman to be vitally important to the Company at its present stage of development, notwithstanding the fact that the Company is not compliant with the Combined Code in this respect. However, the Board believes that the role of the executive directors, who take collective responsibility for the running of the Company, creates a well-balanced structure capable of managing the Company in an effective and successful manner.

The Chief Executive Officer is not required to offer himself for re-election as suggested by the Combined Code. However he has offered himself for re-election in accordance with the Company's Constitution which is consistent with Australian corporate governance requirements.

Terms of appointment as a director

The Constitution of the Company provides that a Director, other than the Chief Executive Officer, may not retain office for more than three calendar years or beyond the third Annual General Meeting following his or her election, whichever is longer, without submitting for re-election. One third of the Directors must retire each year and are eligible for re-election. The Directors who retire by rotation at each Annual General Meeting are those with the longest length of time in office since their appointment or last election.

During the year, Mr Turner and Mr Oke retired and both were re-elected by shareholders at the Annual General Meeting of the Company held on 12 November 2009.

The Executive Directors are entitled to serve on the boards of other companies and retain any earnings received from rendering these services. During the financial year, Mr Kovarsky acted as non-executive chairman of Randgold & Exploration Limited and received a total remuneration of ZAR400,000 over the financial year.

The Nomination Committee

The Nomination Committee is chaired by Mr Grey. Other members include Mr Willstead and Mr Oke, who are considered by the Board to be independent in character and judgement, thus ensuring the Nomination Committee complies with the recommendation of the Combined Code as to membership. The role of the Nomination Committee is to identify and nominate candidates for the approval of the Board to fill Board vacancies and make recommendations to the Board on Board composition and balance. The Nomination Committee also prepares the Chairman's job description and other significant commitments for which he is responsible. The Committee met three times during the financial year.

The Remuneration Committee

The Remuneration Committee comprising of Mr Willstead (Chairman), Mr Oke and Mr Ballard, all of whom are considered by the Board to be independent, met 7 times during the financial year. Mr Ballard joined the Committee on 21 June 2010 following Mr Watson's retirement. The Committee is responsible for reviewing the performance of the Executive Directors and for setting the scale and structure of their remuneration, having due regard for the interests of shareholders as a whole and the performance of the Group. The remuneration of the Non-Executive Directors is reviewed by the Board. Where appropriate, the Committee obtains advice from independent remuneration consultants.

The Audit Committee

The Audit Committee comprises Mr Oke (Chairman), Mr Willstead and Mr Ballard, all of whom are considered by the Board to be independent, with Mr Muller and Mr Russouw, the Group Finance Manager, attending by invitation. Mr Ballard joined the committee on 21 June 2010 following Mr Watson's retirement. The Committee met three times during the financial year. The Committee reviews the Company's half-year and annual financial statements before submission to the Board for approval as well as any announcements relating to financial performance. Regular reports from management, the internal audit and the external auditors are also managed by the Committee. During February 2010, the Board resolved to approve a recommendation made by the Audit Committee to appoint Deloitte as internal auditors to IFM. The scope of their services include reviews of financial and operating controls and the adequacy and effectiveness of the internal control environment of the various business processes that the board requires to be reviewed.

The Risk Committee

The Board determines the Company's Risk Profile and is responsible for overseeing and approving risk management strategies and policies, internal compliance and internal control. Management is required by the Board to assess risk management and associated internal compliance and control procedures and report back on the efficiency and effectiveness of risk management. The Company's process of risk management and internal compliance control includes:

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

- establishing the Company's goals and objectives, and implementing and monitoring strategies and policies to achieve these;
- continuously identifying and measuring risks that might impact on the achievement of the Company's goals and objectives;
- formulating risk management strategies to manage identified risks and designing and implementing appropriate risk management policies and internal controls;
- monitoring the performance of, and continuously improving the effectiveness of, risk management systems and internal compliance and controls;

Comprehensive practices which are in place are directed towards achieving the following objectives:

- effectiveness and efficiency in the use of the Company's resources;
- compliance with applicable laws and regulations; and
- preparation of reliable published financial information.

The Risk Committee consists of Mr Grey (Chairman), Mr Turner, Mr Kovarsky, Mr Willsted and Mr Muller. The Risk Committee met once during the year.

The Treasury Committee

The Treasury Committee was chaired by Mr Muller throughout the year. Other members include Mr Russouw and Mr Van Dyk, the Chief Financial Officer of IFMSA as well as Mr Botha. The Committee met 10 times during the year. The purpose of the Treasury Committee is to monitor the Group's financial concerns. The overall treasury objectives are to support the Group's development by ensuring:

- sufficient liquidity, thereby guaranteeing that the Group is at all times in a position to meet its obligations as they fall due in a timely manner and in all reasonably foreseeable circumstances;
- the most competitive return on surplus cash balances (within acceptable risk levels);
- availability of flexible and competitively-priced funding at all times;
- identification and management of the financial risks arising from operational activities (this would include the hedging of foreign exchange and interest rates movements);
- professional interaction with financial markets; and
- clear accountability within the treasury function.

The monthly treasury reports are included in the board meetings and information papers.

The Investment Committee

The Investment Committee was established during September 2009 and the role of the Committee is to:

Evaluate potential business investments and acquisitions consistent with taking a long term view of value and the existing business plan of IFM based on selection criteria which, in summary, includes:

- formulation and execution of the business strategy of the Company and its underlying business value;
- key financial indicators, including prospective price earnings relative to projected growth, sustainability of earnings and dividend yield (if applicable), including balance sheet position, gearing, interest cover and cash flow; and
- corporate governance practices, including sound and well-constructed boards.

All new business investment and acquisition proposals presented by management must contain the pre-agreed supporting documentation, including executive summary and management recommendation.

The Company may utilise new or existing lines of credit, which allows the Company to gear its balance sheet when appropriate investment opportunities are available to enhance shareholder returns.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

The Investment Committee consists of Mr Grey (Chairman), Mr Turner, Mr Kovarsky and Mr Muller with Mr Cohen being in attendance. The Committee met 5 times during the year.

Attendance at Meetings

Attendance at Board meetings, Nomination Committee meetings, Remuneration Committee meetings and Audit Committee meetings is set out on page 22.

Attendance at meetings for the Risk and Treasury Committees is detailed below:

Name	Risk Committee	Treasury Committee	Investment Committee
Anthony Grey	1	n/a	5
Stephen Turner	1	n/a	5
David Kovarsky	1	n/a	5
Ian Watson	n/a	n/a	n/a
Terence Willstead	n/a	n/a	n/a
Jannie Muller	n/a	10	5
Pieter Russouw	n/a	10	n/a
Hannes Van Dyk	n/a	10	n/a
Dion Cohen	n/a	1	5
Number of meetings held	1	10	5

Terms of reference

The terms of reference for the Nomination, Remuneration, Audit, Treasury and Investment Committees, explaining their role and the authority delegated to them by the Board, can be viewed on the Company's website at www.ifml.com.

Model code

The Company has complied with a code of securities dealings in relation to the ordinary shares which is consistent with the Model Code, set out in the Listing Rules. The code adopted applies to the Directors and other relevant employees of the Group.

Share trading

Dealings are not permitted at any time whilst in the possession of price sensitive information not already available to the market. In addition, the Corporations Act 2001 prohibits the purchase or sale of securities whilst a person is in possession of inside information.

Hedging

Directors and executives are not generally permitted to hedge their shareholdings except as prescribed in the Securities Dealing Policy.

"Hedging" includes entering into any transaction or arrangement in financial products which operates to limit the economic risk of a security holding in the Company, including equity swaps and contracts for difference. Details of the Company's policy in relation to hedging are contained in the Remuneration Report on page 26 of the annual report.

Communication to market and shareholders

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Directors and the Company. Information is communicated to shareholders and the market through:

- the annual report which is distributed to all shareholders;
- other periodic reports which are lodged with the LSE and are available for shareholder scrutiny;
- other announcements made in accordance with LSE Rules;
- special purpose information memoranda issued to shareholders as appropriate; and
- the Annual General Meeting and other meetings called to obtain approval for Board action as appropriate.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Independent professional advice

Directors have the right, in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required (only above A\$50,000), which will not be unreasonably withheld.

Ethical standards

All Directors, Management and staff are expected to consistently apply the highest ethical standards to their conduct to ensure that the Company's affairs and reputation are at all times maintained at the uppermost level.

Going concern

A statement on the Directors' position regarding the Company as a going concern is contained in the Directors' Report on page 22.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

DIRECTORS' REPORT

The Directors present their report together with the financial report for the year ended 30 June 2010. Directors were in office for this entire year unless otherwise stated.

International Ferro Metals is an integrated ferrochrome producer listed on the London Stock Exchange (LSE: IFM). The head office is in Sydney, Australia and the production facilities are located in the North West Province of South Africa.

The Directors

Name	Age	Current Position	Date of appointment to Board
Anthony John Grey	73	Non -executive Chairman	9 December 2002
Stephen John Turner	49	Non -executive Deputy Chairman	26 January 2002
David Chaim Kovarsky	63	Chief Executive Officer	1 February 2008
Xiaoping Yang	55	Executive director – IFMSA & Non-executive director - IFML	12 October 2005
Johannes Frederick Jacobus Muller	41	Finance Director & Chief Financial Officer	18 March 2010
Terence Vincent Coleman Willstead	76	Non-executive Director	12 October 2005
Ian Clyde Watson	67	Non-executive Director	Retired 12 November 2009
Stephen Douglas Oke	56	Non-executive Director	16 November 2005
Tian Xia	40	Non-executive Director	16 November 2005
John Charles Ballard	64	Non-executive Director	9 March 2010

PRINCIPAL ACTIVITIES

IFM produces ferrochrome from chromite ore located in the Bushveld Igneous Complex, one of the world's richest mineral repositories and the largest ferrochrome producing regions in the world. IFM's Lesedi chromite mines and integrated beneficiation and smelting operations are situated at Buffelsfontein, 100km north-west of Johannesburg, South Africa. The Company is currently developing the nearby Sky Chrome deposit in which it has an 80% interest and which will allow the Company to significantly increase production.

REVIEW OF OPERATION

Operations

Due to a collapse in the demand for ferrochrome in late 2008 as a result of the global financial crisis, both of IFM's furnaces were shut down in November 2008. The first furnace was restarted in April 2009 and the second in August 2009, following an upturn in the global demand for ferrochrome. Underground mining operations at Lesedi that were also curtailed in January 2009 recommenced during January 2010.

Until June 2010 all underground mine production was sourced from the MG1 decline while the MG2 shaft infrastructure was completed in June 2010. The total Lesedi resources, including measured, indicated and inferred resources, are estimated at 23.4 million tonnes and the plan is to mine a combined 20 million tonnes of ore from the MG1 and MG2 horizons over the next 30 years. The planned build up allows for the necessary mine development and provides the foundation for future stable ferrochrome production. Maximum ore production of 75,000 tonnes per month from the underground mine is expected to be achieved in 2014.

It is anticipated that the Lesedi open pit will be mined out by 30 June 2011, at which time the underground mining is planned to be producing at an average of 47,000 tonnes of ore per month over the twelve months that follow. At that time UG2 concentrate, mostly supplied under the agreement with Rustenburg Platinum mines, is expected to supplement ore produced from underground mining.

Due to the slow increase in ore production as a result of the mine shutdown and a focus on underground development, ore was bought in to supplement production tonnages. Higher grade ores were purchased to mix with the lower grade ore being mined in the open pit to optimise their use. The intensive programme of ore and concentrate purchases has been completed and it is expected that from May 2012, the only additional ore requirements will be approximately 5,000 tonnes per month of high grade ore to be blended with the UG2 concentrate to produce a final product with 50% chrome content. Since August 2010 IFM has commenced selling low grade beneficiated lumpy ore generated from the open pit which will contribute towards mining costs and release working capital.

Since the beginning of calendar 2010, IFM has been using a contractor to mine the underground mine. At the same time, IFM has set up an internal management infrastructure to manage the contract and to provide a high degree of control.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

The recent spate of disputes relating to prospecting and mining rights in South Africa has not affected the Company to date. Nationwide strikes in June 2010 and September 2010, by Transnet and civil servants respectively, have had no material impact on the Company's performance.

Both the ore beneficiation plant and the pelletising plant operated at high efficiency levels during the year. In the last six months of the financial year, ferrochrome production was below maximum production capacity due to furnace roof leaks and ore input mix instability. In June 2010 furnace 1 was shut for 5 days to repair the roof and furnace 2 in August 2010 for 11 days for similar maintenance.

A feasibility study is being conducted on the expansion of ferrochrome production by the potential commissioning of up to 2 new furnaces. This is a reduction from the plans of 2008 which examined the feasibility of 3 new furnaces, to reflect changed market conditions. The study is expected to be finalised by the beginning of 2011. With the Medupi power station commissioning expected late in 2012, it is likely that expansion electricity supply will be granted by Eskom around that time. The feasibility study is examining a number of ferrochrome production technologies including DC furnaces (Direct Current), which in addition to increasing production would have the added benefit of lower unit operating costs through power, ore and reductant input efficiencies. The feasibility study is expected to be put to the Board by June 2011, at which time a decision on the expansion should be made.

Sky Chrome

The Company submitted its Sky Chrome mining rights application to the DMR in 2009. Since then we have responded to questions and revised aspects of the application to meet the DMR's approval. The mining licence is expected to be granted by the end of 2010.

Anglo Platinum for UG2 chrome concentrate supply agreement

In February 2010 the Company concluded and announced a UG2 ore supply agreement with Rustenburg Platinum Mines Limited ("RPM"), a subsidiary of Anglo Platinum Limited. Under the agreement IFM will fund the construction of a chrome re-treatment plant ("CRP") to extract chrome concentrate from RPM's UG2 concentrator tailings. The CRP will be owned, maintained and operated by RPM. The contract has a 10 year life commencing on the construction start date and entitles IFM to 15,000 tonnes of concentrate per month (almost 30% of IFM's beneficiated ore requirements) from the commissioning date, at no additional cost other than the cost of transporting the concentrate to its facilities at Buffelsfontein, which is about 50km from the CRP, and any government royalties that may be payable. Construction commenced on 1 September 2010 with commissioning expected in July 2011, and it is estimated that IFM will therefore receive concentrate for a period of about nine years. The construction cost of the CRP was estimated at ZAR150 million at the time the agreement was concluded, however after completion of the detailed engineering design the cost has been fixed at ZAR161 million on a lump sum turnkey contract basis. The additional cost of ZAR11 million does not materially affect the effective cost per tonne of concentrate which is significantly below the Company's own underground mining cost.

Black Economic Empowerment ("BEE") Transaction

In April 2009 the Company lodged its proposed BEE transaction with the former South African Department of Minerals and Energy, now the Department of Mineral Resources ("DMR"), as the final element of its previously submitted application to convert its old order mining rights to new order mining rights under the South African Minerals and Petroleum Resources Development Act. The Company is actively engaging the relevant stakeholders and the DMR to finalise the BEE transaction which is expected to be concluded in the near future.

Electricity Co-generation Plant

The electricity co-generation plant ("the Plant") was conceived in January 2007 as a Clean Development Mechanism project under the framework provided by the Kyoto Protocol. In 2008 the project was placed on hold due to the global financial crisis. In August 2009 IFM raised ZAR284 million (before expenses) through a share placement, principally to fund the co-generation plant, at an expected cost of ZAR255 million.

The Plant is expected to generate on average 13.7 MW, about 11% of IFM's overall electricity requirements and displace an estimated 144,000 tonnes of carbon dioxide equivalent per year, reducing IFM's environmental impact and electricity costs, in keeping with the Company's strategy of being a high quality, low cost producer. The possible annual Carbon Credit income is approximately EUR1.4 million per annum (at current prices) for ten years. Eskom electricity constraints are currently voluntary but legislation is expected before the end of 2010 which would enforce supply constraints. The Plant will compensate for this shortfall and mitigate the potential operational impact of the supply constraints. The construction of the Plant is within budget and on track to start commissioning in October 2010.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Health and safety

While the key financial performance indicators which management are focused on as the clearest signals of the Company's financial health are production, sales, costs and cash flow, two of our most important operational indicators are lost time incidents and fatality free man hours. Health and safety is of paramount importance to IFM; mining and production procedures are in line with regulatory requirements and industry best practice and are strictly enforced. The Company's commitment to health and safety was reflected in a number of areas and during the year IFM continued to improve its health and safety performance.

- IFM improved its record of fatality free man hours by achieving, since establishment in 2005, a total of 14,431,457 fatality-free man-hours worked. This equates to 1,803,932 fatality free shifts.
- The frequency of total recordable injuries reduced by 6% compared to the previous year and achieved a year-to-date lost time injury frequency rate of 0.95 per million hours worked, compared to the mining industry average of 6.9 per million hour worked. The primary reasons for the majority of lost time injuries related to material handlings and none of the injuries resulted in a permanent disability.
- During July 2010 the Department of Mineral Resources ("DMR") consulted with the platinum and chrome industries regarding the impact of bord and pillar mining on mine safety and initially required changes to the size of the bord (mining face) and, to a lesser extent, pillars. It was however subsequently agreed with the DMR that the Company would deploy ground penetrating radar that would identify hanging wall conditions as mining is conducted and so enable remedial measures to be taken if required.
- IFM sustained its certification status as meeting the requirements of OHSAS 18001:2007 and ISO 14001:2004. The Company upgraded the integrated management system to meet the requirements of ISO 9001:2008 and received certification to this effect from TUV Rhineland.

Ferrochrome market

The global financial crisis led to international stainless steel production falling from 28.3 million tonnes in 2007 to 25.4 million tonnes in 2009. High carbon ferrochrome consumption tracked this trend with 7.6 million tonnes produced in 2007 and 6.7 million tonnes in 2009. However since Q3 2009, both global stainless steel and ferrochrome production have bounced back and it is anticipated that 2010 global stainless steel production will reach a record 30.8 million tonnes. Similarly 2010 total ferrochrome production is expected to reach a record 8.3 million tonnes.

The European ferrochrome benchmark price recovered from US\$0.69/lb in Q2 2009 to US\$1.36 in Q2 2010, however due to the traditional seasonal weakness in the third quarter, the price dropped to US\$1.30/lb in Q3 2010. The general price increase has led to a resumption of more normal margins for ferrochrome producers. South Africa supplies a major portion, some 40%, of the world's ferrochrome needs and often changes in production costs are reflected in the ferrochrome selling price. Over the past year the Company achieved an 8% reduction in Rand production costs although the strengthening of the Rand against the US Dollar increased production costs by 9% in Dollar terms.

One of the major cost inputs influenced by world prices is coke. The price of coke has benefited from the strong Rand, however international coke prices have been increasing since Q2 2010 as world demand has picked up. Additionally, the South African electricity price increased by 25% in April 2010, which, combined with the delayed 2009 increase which was only introduced in July 2009, resulted in a total average increase in electricity unit prices of 54%.

During the year the Company has increased its sales volumes and strengthened relationships in Western Europe and North America. Its position in China is excellent through the marketing efforts of its Chinese marketing agent JISCO. We continue to diversify the customer base.

Future objectives and Outlook

The current economic climate has highlighted the need to ensure that the Company is profitable at low ferrochrome price levels. Our main operational priority remains to drive down costs and improve efficiencies. The Company's objective is to be below the median of South African production costs and management are strongly focused on reducing production costs at the mine and the plant, and to reduce general corporate overheads. As mining volumes are increased, the Company expects that ore costs will reduce which, combined with the flow of UG2 ore, will have a significant cost benefit. The first priority at the furnaces is to achieve high levels of stability and then to ensure that efficiencies are derived from power, ore and reductant consumption. Some of these improvements have already been implemented and general overheads have also been reduced.

New markets continue to be sought to diversify the customer and geographic base to ensure that IFM sell its total production at the highest possible prices. The Company has made tremendous inroads in reducing unit costs by 8% over the year and with its cost reduction programme, the start up of the co-generation plant and the UG2 agreement, the costs are expected to decline further. Moreover, if the furnace expansion plans are approved, this will allow the Company to



INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

reduce its average cost of production by utilising technologies that yield lower costs. Higher volumes will also amortise fixed costs over a larger production base.

The Company is cautious on the outlook for the market in the short term, but remains optimistic and confident about the long term demand for stainless steel and ferrochrome, driven by global macroeconomic trends.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

EXECUTIVE DIRECTORS

Mr David Kovarsky – *Chief Executive Officer (63)*

After studying at The University of Witwatersrand, David qualified as a Chartered Accountant in 1971 and was appointed an audit manager at Arthur Andersen. In 1983 he joined JCI as head of corporate finance, and in 1992 headed JCI's ferrochrome arm, CMI. Thereafter David headed Times Media Limited (TML) and served on various boards including TML, SA Breweries, M-Net and Premier Milling. Between 1994 and 2002 David was involved in finance and strategy consulting projects. During this period he served as Chief Financial Officer of two listed gold mining companies. From 2002 to early 2008 he was Chief Executive Officer (CEO) of Pyromet Technologies who supplied IFM with its furnace and ancillary equipment. Currently David is the non-executive chairman of Randgold and Exploration Company.

Mr Xiaoping Yang – *Executive Director of IFMSA & Non-executive Director of IFML (55)*

Xiaoping Yang holds a Masters Degree from the Beijing University of Science and Technology. He joined Sinosteel Co as a Project Manager and became Branch General Manager in 1994. Xiaoping moved to South Africa in 1998 where he undertook the role of Managing Director and Chief Executive Officer of ASA Metals (Pty) Ltd, a South African chrome mining and smelter business. Xiaoping joined JISCO as Assistant President in July 2002.

Mr Johannes (Jannie) Muller – *Finance Director & Chief Financial Officer (41)*

Jannie Muller obtained his Bachelor in Accounting honours degree at the University of Stellenbosch in 1994. After completing his articles with Deloitte & Touche, and qualifying as a Chartered Accountant in 1997, he spent two years in London working for three international investment banks where he gained extensive experience in financial instruments and international financial markets. Upon returning to South Africa he worked as a treasury manager for the Old Mutual group for four years during which time he qualified as a Chartered Financial Analyst. Thereafter he worked for ABSA Bank for two years as investment specialist. He joined IFM in 2007 as Group Financial Manager and was appointed Chief Financial Officer in 2009. Jannie has since been appointed to the Board of Directors as Finance Director effective 18 March 2010.

NON-EXECUTIVE DIRECTORS

Mr Anthony (Tony) Grey – *Non-executive Chairman (73)*

Tony Grey graduated with a BA (Hons) in History and a Juris Doctor from the University of Toronto. Thereafter, he practiced law with a major law firm in Toronto for seven years. He immigrated to Australia in 1972 and founded Pancontinental Mining, which he built into a publicly-listed major diversified mining house with interests in gold, base metals, coal, industrial minerals and uranium. He left Pancontinental Mining in 1992 and became a director of National Mutual Royal Bank for four years. Thereafter, Tony was appointed Chairman of Kingsgate Consolidated, a gold mining company listed on the Australian Stock Exchange. In 1992, Tony became a major shareholder and Executive Chairman of Polartech Ltd, an Australian Stock Exchange-listed biomedical company developing the revolutionary Australian invention of an optoelectronic means of diagnosing pre-cancer cells and cancer. Mr Grey also serves on the board of International Potash Limited, a Canadian potash producer, as a non-executive director and as a director of Mega Uranium Limited. Tony has written three books and numerous articles about the mining industry.

Mr Stephen Turner – *Non-executive Deputy Chairman (49)*

Stephen Turner, founder of IFM, has over twenty years' experience in financial markets and for the last fifteen years has specialised in the natural resources sector. Stephen has delivered resource projects in Australia, Southern Africa, Fiji, New Caledonia and the Solomon Islands. He is also non-executive chairman of Vantage Goldfields Limited, and a non-executive director of Iluka Resources Limited. He was a founding director of the Australian subsidiary of PSG Investment Group, then South Africa's sixth largest investment bank. He has an extensive network of business contacts and has raised equity capital in Australia, the UK, Hong Kong, Malaysia and the USA. Stephen is an Australian Chartered Accountant.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Mr Terence Willsteed – Non-executive Director (76)

Terence Willsteed holds a Bachelor of Engineering (Mining) with Honours and a Bachelor of Arts and is a Fellow of the Australasian Institute of Mining and Metallurgy. Since 1973 he has been the principal of consulting mining engineers Terence Willsteed & Associates.

His 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 Limited. His recent public directorships include European Gas Limited, Austral Gold Limited, Citigold Corporation 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.

Mr Stephen Oke – Non-executive Director (56)

Stephen Oke holds a BSc Honours degree in Geology from the University of Southampton and an MBA from the University of the Witwatersrand Graduate School of Business. He has over thirty years' experience in the mining and metals industry of which some twelve years was spent in various operational management positions for the National Coal Board, Anglovaal Ltd, BP Coal and Johannesburg Consolidated Investment Co Ltd. Subsequently he has held senior positions in the investment banking industry for Smith New Court, Merrill Lynch, NM Rothschild and Sons and Standard Bank, specialising in the metals and mining sector where he advised on a number of transactions and equity capital fund raisings worldwide. He is currently on the boards of listed and private companies in the resources sector.

Ms Tian Xia – Non-executive Director (40)

Tian Xia received a Bachelor of Industrial Accounting degree in 1992 from the East China University of Metallurgy. In the same year she joined JISCO as an accountant. Tian became a Certified Public Accountant of China in 1996 and received an EMBA Degree in 2000 from Xi'an University of Science and Technology. She was appointed the Director of Financial Department of JISCO Group and was promoted to the position of Associate General Accountant in 2005. She was appointed Chief Financial Officer of the JISCO Group in 2008.

Mr John Ballard – Non-executive Director (64)

John Ballard joined the Board of IFM on 9 March 2010. He has extensive experience across a wide range of industries as both a senior executive and a Non-Executive Director. He was previously Managing Director and Chief Executive Officer of Southcorp Limited, Managing Director of Asia Pacific, United Biscuits Limited and Managing Director Snack Foods, Coca-Cola Amatil Limited, a Director of Woolworths Limited and Email Limited, Chairman of Watty! Limited, a Director of CSR Limited and subsequently Rinker Limited and a Trustee of the Sydney Opera House Trust. Mr Ballard is currently a Director of Fonterra Co-operative Group Limited, a Director of Magellan Flagship Fund Limited, Chairman of the Advisory Funds at Pacific Equity Partners, a Director of the Sydney Neuro Oncology Group and Chairman-designate of Elders Limited. John is a Fellow of the Australian Institute of Company Directors and holds an MBA from Columbia University, New York.

MANAGEMENT

The Management of the Group, excluding the executive directors mentioned above include:

Mr Willem (Wimpie) Van Wyk – General Manager Mining (43)

Wimpie van Wyk has more than twenty-two years' mining experience in the gold and chrome industries. He holds a Higher National Diploma in Metalliferous Mining and is a registered professional engineer with the Engineering Council of South Africa and holds a Mine Managers certificate and a Mine Overseers Certificate of Competency. Prior to joining IFM in January 2010, he was employed by a leading global ferrochrome producer and was responsible for 660,000 tonnes from opencast operations and 5 million run-of-mine tonnes per year from underground operations. He has managed five underground mines, one quartz mine and two open pit mines. Wimpie has extensive experience in managing expansion projects.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Mr Michael Lillja – *General Manager Marketing (48)*

Michael graduated in 1987 in International Sales and Marketing, with a Master Science of Economics degree in Helsinki Finland, and has an MBA. From 1987 he spent 2½ years in Greece working in the crude oil sector as Head of Black Sea operations, after which he spent seven years in Former Soviet Union as purchasing manager for crude oil and oil-refined products. In 1996 he joined Alloys Finland/Millennium 2000 (Alloy 2000/ENRC), responsible for the logistics, sales and marketing of Kazkrom-Kazakh ferrochrome producer, until 2002 when he moved to work for two years in the carbon steel sector as Head of Sales. In 2005 he returned to the ferrochrome industry where he was responsible for the marketing and selling of chrome ores and charge chrome. He joined IFM in March 2010.

Mr Maarten Nienaber – *General Manager Works (48)*

Maarten Nienaber is a qualified Electronic Engineer from the University of Pretoria. He is currently studying towards obtaining an MBL degree at the University of South Africa. For the past nine years he has worked for a leading global ferrochrome producer and was responsible for introducing the “South African” cost model and operating philosophy to the Australian Vanadium environment. He has also been extremely successful in ensuring the consistent achievement of lower production costs coupled with high efficiencies and throughput. Maarten joined IFM in May 2010 as General Manager Works.

COMPANY SECRETARY

Mr Wayne Kernaghan

Wayne is a member of the Institute of Chartered Accountants in Australia with a number of years' experience in various areas of the mining industry. He is also a Fellow of the Australian Institute of Company Directors and a Chartered Secretary.

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report, the interests of the directors in the shares and options of International Ferro Metals Limited were:

	Number of Ordinary Shares
D C Kovarsky	-
X Yang	166,667
J Muller	-
A J Grey	1,266,667
S J Turner	6,916,667
T V Willsteed	1,000,000
I W Watson	n/a
S D Oke	50,000
T Xia	166,667
J C Ballard	-

There were no options held over Ordinary Shares at the date of this report.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

RESERVE AND RESOURCE STATEMENT

Table 1:

Mineral Resource and Mineral Reserve Statement of International Ferro Metals Limited as at 30 June 2010.

	Mineral Reserves ¹ (ROM Feed numbers)				Mineral Resources (Geological Losses Applied)			
	Attributable (%)	Tonnage (kt)	Cr ₂ O ₃ (%)	Cr:Fe ratio	Attributable (%)	Tonnage (kt)	Cr ₂ O ₃ (%)	Cr:Fe ratio
PROVED:					MEASURED:			
Lesedi	99.375				Lesedi	99.375		
					MG3*			
					MG2T	2,180	37.24	1.34
MG2		7,773	28.65	1.21	MG2B	5,447	38.67	1.37
MG1		6,205	34.86	1.40	MG1	6,095	40.47	1.49
Sky Chrome; Underground	80				Sky Chrome; Underground	80		
MG2					MG2C	342	33.95	1.33
MG1					MG2B	432	36.64	1.35
					MG2A	348	36.73	1.35
					MG1	914	37.97	1.45
Sky Chrome; Open Pit	80				Sky Chrome; Open Pit	80		
MG4		1,072	27.52	1.22	MG4	951	30.55	1.27
MG3		272	25.55	1.22	MG3	216	30.24	1.27
MG2		738	27.99	1.21	MG2	530	35.20	1.33
MG1		461	33.41	1.37	MG1	417	36.77	1.43
MG0		146	29.16	1.27	MG0	124	33.49	1.36
PROBABLE:					INDICATED:			
Lesedi	99.375				Lesedi	99.375		
					MG3*			
					MG2T	587	37.31	1.36
MG2		2,177	28.34	1.21	MG2B	1,486	38.55	1.38
MG1		2,048	35.13	1.40	MG1	1,950	40.69	1.49
Sky Chrome; Underground	80				Sky Chrome; Underground	80		
MG2		18,853	28.34	1.23	MG2C	12,169	36.32	1.37
MG1		20,536	32.17	1.37	MG2B	14,602	38.33	1.38
					MG2A	14,021	38.15	1.38
					MG1	31,206	38.92	1.50

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

	Mineral Reserves ¹ (ROM Feed numbers)				Mineral Resources (Geological Losses Applied)				
	Attributable (%)	Tonnage (kt)	Cr ₂ O ₃ (%)	Cr:Fe ratio		Attributable (%)	Tonnage (kt)	Cr ₂ O ₃ (%)	Cr:Fe ratio
Sky Chrome; Open Pit	80				Sky Chrome; Open Pit	80			
MG4		5,631	27.52	1.22	MG4		4,991	30.55	1.27
MG3		1,499	25.55	1.22	MG3		1,191	30.24	1.27
MG2		3,872	27.99	1.21	MG2		2,784	35.20	1.33
MG1		2,437	33.41	1.37	MG1		2,205	36.77	1.43
MG0		771	29.16	1.27	MG0		656	33.49	1.36
Proved & Probable Reserves		74,491	30.20	1.29	Measured & Indicated Resources		105,844	37.66	1.41
					INFERRED				
					Lesedi	99.375			
					MG3*				
					MG2T		837	37.23	1.36
					MG2B		2,029	38.51	1.38
					MG1		2,747	40.68	1.49
					Sky Chrome	80			
					MG2C		2,997	36.62	1.37
					MG2B		3,436	37.84	1.37
					MG2A		3,049	38.19	1.38
					MG1		7,296	39.85	1.52
					Inferred Resources		22,391	38.77	1.44
Total Reserves		74,491	30.20	1.29	Total Resources		128,235	37.85	1.42

Mineral Reserves¹ used in SAMREC and IMMM Codes whereas termed Ore Reserves in the JORC Code

MG3* No longer reported due to not possible to mine underground

Tonnages and grades for the MG2 reserves include the parting between the MG2B and MG2T reefs for Lesedi and the MG2A, MG2B and MG2C for Sky Chrome.

The information in this report that relates to exploration results is based on information compiled by Lefatshe Geological consultants and verified by the IFM appointed Competent Person, HB Swart (PrSci Nat). The Competent Person has sufficient experience which is relevant to the style of mineralisation and types of deposits under consideration, and to the activity which has been undertaken, to qualify as a Competent Person as defined by the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC), as well as the 2007 edition of the South African Code for Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC).

The Measured and Indicated Mineral Resources for Sky Chrome declared as at 30 June 2010 increased from that declared in June 2009 due to the inclusion of the MG0, MG3 and MG4 seams in the opencast in line with current practise at the Lesedi Opencast, as well as reporting on a gross basis in 2010 as opposed to the 2009 attributable basis. The Lesedi Mineral Resources declared as at 30 June 2010 decreased substantially from that declared in June 2009 due to the removal of the MG3 underground resources. The MG3 seam width is too narrow for underground mining methods which will dilute the already low tenor to levels not possible for eventual economic exploitation.

The combined Sky Chrome and Lesedi Mineral Resources declared as at 30 June 2010 increased from that declared in June 2009 by 2.152 million tonnes and the Cr₂O₃ grade improved by 8.09% and the Cr to Fe ratio by 0.12.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

The Mineral Reserves¹ for Lesedi declared as at 30 June 2010 increased from that declared in June 2009 due to Mine Planning completed for the entire lease area. The Mineral Reserves¹ for Sky Chrome declared as at 30 June 2010 increased from that declared in June 2009 due to the inclusion of the MG0, MG3 and MG4 seams in the opencast in line with current practise at the Lesedi Opencast, as well as reporting on a gross basis in 2010 as opposed to the 2009 attributable basis. For the Sky Chrome Project, the Mineral Reserves now reflect the latest Feasibility Study completed during the year to accommodate the revised mine plan as opposed to the previous mine plan completed for the September 2008 Feasibility Study. There is reasonable expectation that The Sky Chrome Mining Right approval is imminent as it was recommended for approval by the North-west DMR.

The combined Sky Chrome and Lesedi Mineral Reserves¹ declared as at 30 June 2010 increased from that declared in June 2009 by 19.132 million tonnes and the Cr₂O₃ grade decreased by 1.89% and the Cr to Fe ratio decreased by 0.05.

DIVIDENDS

The Board of Directors resolved not to declare a dividend for the year ended 30 June 2010.

OPERATING AND FINANCIAL REVIEW

The Company's results have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for certain financial instruments which have been measured at fair value. Changes to accounting policies have been made to align them with the latest changes in accounting standards and are outlined in the notes to the annual financial statements. The effects of these changes were not material.

The key financial performance indicators which management are focused on as the clearest signals of the Company's financial health and operational efficiency are production, sales, costs and cash flow, which are highlighted below.

Income statement

The Company reported a loss before tax of ZAR157 million for the year ended 30 June 2010, compared to a loss of ZAR456 million for the prior year.

The table below reflects the consolidated results for IFM for the year ended 30 June 2010. Both the functional currency and the presentation currency of the Company is South African Rand ("ZAR") unless otherwise stated.

Summary of Income Statement	FY 2010 H1	FY 2010 H2	FY 2010	FY 2009
FeCr production (tonnes)	94,715	105,725	200,440	110,364
FeCr sales (tonnes)	70,936	119,496	190,432	101,835
	ZAR'000	ZAR'000	ZAR'000	ZAR'000
Sales revenue	451,917	981,678	1,433,595	781,574
Cost of goods sold	(509,055)	(915,762)	(1,424,817)	(868,977)
Gross profit (loss)	(57,138)	65,916	8,778	(87,403)
EBITDA	(102,258)	43,404	(58,854)	(395,968)
PBT	(144,842)	(11,890)	(156,732)	(455,778)
Taxation	39,749	31,177	70,926	117,199
Net profit (loss) after tax	(105,093)	19,287	(85,806)	(338,579)
Net operating cash flow	(273,954)	5,502	(268,452)	(348,174)
EPS (cents per share)	(19)	4	(15)	(66)
Weighted average number of shares	544,925,948	549,442,047	549,442,047	504,757,375
DPS (pence)	0p	0p	0p	0p

Ferrochrome production increased by 82% from 110,364 tonnes in FY2009 to 200,440 tonnes in FY2010 as the Company restarted its second furnace in August of 2009. The low ferrochrome production volumes in FY2009 were due to the global financial crisis which resulted in IFM shutting down both furnaces in November 2008.

Sales revenue increased by ZAR652 million from ZAR782 million in FY2009 to ZAR1.4 billion in FY2010. This is attributable to an 87% increase in sales volumes from 101,835 tonnes in FY2009 to 190,432 tonnes in FY2010. Although there was a decrease in the average European benchmark price for ferrochrome from the prior financial year, realised sales prices increased by 9% overall. This was however offset by a much stronger Rand which on average appreciated

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

by 16% against the Dollar over that same period. At 30 June 2010, sales of 27,541 tonnes have ongoing pricing exposure with pricing expected to be settled by the end of September 2010.

Earnings before interest, tax, depreciation and amortisation (EBITDA) improved significantly from a loss of ZAR396 million in FY2009 to a loss of ZAR59 million for FY2010. The second half of the year reflected an EBITDA profit of ZAR43 million compared to a loss of ZAR102 million for the first half.

Finance income decreased by ZAR21 million to ZAR14 million, because of the decrease in cash holdings. Finance cost increased from ZAR37 million to ZAR46 million due to the draw downs on the working capital facility.

The positive tax charge of ZAR71 million to the income statement is a deferred tax credit resulting from the Company's unclaimed calculated tax losses available for offset against future profits.

Headline earnings improved significantly from a loss of ZAR339 million (ZAR0.66 per share) in FY2009 to a loss of ZAR86 million (ZAR0.15 per share) for FY2010.

Costs

There has been an overall reduction in costs in Rand terms due to the continued drive to lower costs across the operations, in accordance with the Company's strategy of being a high quality, low cost producer.

Ferrochrome production cost for the year was 83.4¢/lb at an average exchange rate of ZAR7.54/US\$ compared with 76.3¢/lb for the prior year at an average exchange rate of ZAR8.95/US\$. The breakdown of the year's production cost is tabled below.

Table 1: breakdown of production cost (in US¢/lb)

Ore	24.8¢
Reductant	23.0¢
Electricity	15.3¢
Operating costs	5.6¢
Fixed costs	10.4¢
Depreciation	4.3¢
Total	83.4¢

In Rand terms, FY2010 production costs decreased by 8% (at ZAR8.95/US\$ the current year's cost of 83.4¢/lb equates to 70.2¢/lb, an 8% reduction) as a result of:

- Higher production volumes resulted in a lower fixed cost per unit allocation. Going forward this should improve further as capacity utilisation improves, which was only 75% in FY2010, and 42% in the prior year.
- Lower cost of ore due to the ramping up of underground mining operations, improving the ratio between production and development tonnes and additional benefits of scale. The UG2 supply contract with Anglo Platinum which is expected to commence in July 2011 should significantly reduce the overall cost of ore.
- Although coke prices on average decreased by 25% from the prior financial year, they have started to increase steadily since Q2 2010. IFM has recently begun to introduce cheaper reductants which should in future reduce the overall input cost.
- Electricity unit prices on average increased by 54% from the prior financial year and further increases in the order of 25% per year for the next two years and above-inflation increases thereafter are expected. The co-generation plant is on track to generate electricity from October 2010 and should provide about 11% of IFM's overall electricity requirements, at significantly lower cost than Eskom. The co-generation plant should also supplement the 10% Eskom supply constraint which is expected to be legislated before the end of 2010.

Production costs for July and August 2010, when restated using the average FY2010 electricity and coke prices and ZAR/USD exchange rate, declined by 4.5¢/lb in pro forma terms to 78.9¢/lb, further demonstrating the success to date in pursuing production efficiencies and cutting costs.

Administration and other expenses decreased from ZAR391 million in the comparative period to ZAR114 million, primarily due to a ZAR131 million reduction of non-absorbed fixed costs (because of resumption of production), a ZAR104 million decrease in the write-down of inventories to net realisable value, and a ZAR28 million reduction in staff cost and directors fees.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

The share-based payment liability was adjusted to reflect the movement in the share price and the movement in the shares issued. The effect of this was a charge of ZAR6 million to the income statement.

Cash flow

Summary of Statement of Cash Flows	H1 2010 ZAR'000	H2 2010 ZAR'000	FY 2010 ZAR'000	FY 2009 ZAR'000
Net cash flows from operating activities	(273,954)	5,502	(268,452)	(348,174)
Net cash flows from investing activities	(112,389)	(134,540)	(246,929)	(161,095)
Net cash flows from financing activities	452,063	135,934	587,997	(111,245)
Net increase / (decrease) in cash held	65,720	6,896	72,616	(620,514)
Cash at the beginning of the year	340,089	395,344	340,089	972,190
Effects of exchange rate changes on cash	(10,465)	(5,314)	(15,779)	(11,587)
Cash and cash equivalents at the end of the period	395,344	396,925	396,925	340,089

Operating activities utilised cash of ZAR268 million mainly to fund the increase in inventories. Investing activities utilised ZAR247 million which includes ZAR229 million for capital expenditure, of which underground mine development and the co-generation project were the most significant. Financing activities generated ZAR588 million from the share issue of ZAR274 million in August 2009, draws on the working capital facility of ZAR350 million and loan and interest repayments of ZAR36 million.

The Company's net cash position at 30 June 2010 was ZAR47 million (ZAR397 million cash on balance sheet less ZAR350 million drawn on the working capital facility). The decrease in net cash (after the share issue) from ZAR340 million at 30 June 2009 is attributable to the cash loss before tax of ZAR91 million, a net increase in working capital of ZAR223 million and capital expenditure of ZAR229 million.

Balance Sheet

Shareholders' equity increased by ZAR188 million (ZAR274 million shares issued less ZAR86 million after-tax loss) from ZAR2.3 billion to ZAR2.5 billion.

Property, Plant & Equipment increased by ZAR164 million, mainly attributable to the co-generation plant and underground mine development.

Working capital increased by ZAR232 million (including non-cash items), of which ZAR250 million is as a result of an increase in inventories (ZAR92 million for ferrochrome and ZAR158 million for raw materials, ore and consumables), an increase of ZAR149 million in receivables and an increase of ZAR167 million in payables.

The increase in the deferred tax asset of ZAR71 million is due to the increase in the calculated tax loss of ZAR190 million. The unredeemed capital expenditure balance is estimated at ZAR1.5 billion at 30 June 2010.

The Company's balance sheet is strong with a debt to equity ratio of only 16%.

Capex

Capital expenditure for the year was ZAR229 million which includes ZAR102 million for the co-generation project and ZAR86 million for underground mine development. An additional ZAR31 million cash guarantees were issued to the Department of Mineral Resources.

The budgeted capital expenditure for FY2011 is ZAR259 million which includes ZAR100 for the co-generation project, ZAR66 million for underground mining development and ZAR20 million for the upgrading of the metal recovery plant.

Additionally, the cost to construct the UG2 chrome re-treatment plant has been fixed at ZAR161 million of which ZAR140 million is expected to be incurred in FY2011.

Funding

In July 2009 the Company secured a ZAR500 million three year irrevocable working capital facility with the Bank of China. At 30 June 2010 ZAR350 million had been drawn on the facility.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

On 3 August 2009 the Company raised GBP22.2 million (ZAR284 million) (before expenses) through a placing of 50.4 million ordinary shares with certain existing shareholders including Jiuquan Iron & Steel Group Company Ltd ("JISCO") and new institutional investors at 44 pence per share.

The Company is negotiating a term loan facility to fund the UG2 project and expects to conclude an agreement by the end of October 2010.

Dividends

The Board of Directors has resolved not to declare a dividend for this financial year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than the above there were no significant changes in the state of affairs of the Group for the year ended 30 June 2010.

MATTERS SUBSEQUENT TO BALANCE SHEET DATE

Other than those outlined in note 34 to the Financial Statements, no matters or circumstances have arisen since 30 June 2010 that have significantly affected or may significantly affect:

- the Company's operations in future financial years; or
- the result of those operations in future financial years; or
- the Company's state of affairs in future financial years.

LIKELY DEVELOPMENTS

Further information on likely developments in the operations of the entity and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the entity.

ENVIRONMENTAL REGULATION

The Group is compliant with all the applicable environmental regulations.

INSURANCE OF OFFICERS

During the financial year, a premium was paid to insure the Directors, Officers and Secretary of International Ferro Metals Limited.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the numbers of meetings attended by each director were as follows:

Attendance at meetings up to and including the date of this annual report, namely 30 June 2010, is indicated below:

Name	Board	Audit Committee	Remuneration Committee	Nomination Committee
	13	3	7	3
David Kovarsky	13	n/a	n/a	n/a
Anthony Grey	13	n/a	n/a	3
Stephen Turner	13	n/a	n/a	n/a
Xiaoping Yang	13	n/a	n/a	n/a
Jannie Muller (appointed 18 March 2010)	4(4)	n/a	n/a	n/a
Terence Willstead	12	3	7	3
Ian Watson (resigned 12 November 2009)	3 (5)	1(2)	2(3)	n/a
Stephen Oke	12	3	7	3
Tian Xia	12	n/a	n/a	n/a
John Ballard (appointed 9 March 2010)	5(5)	-	-(1)	n/a

() number of meetings held while a director

GOING CONCERN

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

ROUNDING

The amounts contained in the financial report for the year ended 30 June 2010 have been rounded to the nearest ZAR1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

AUDITOR INDEPENDENCE

The directors received a declaration from Ernst & Young, which is on page 41.

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	ZAR
Other assurance services	49,955
	<u>49,955</u>

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

REMUNERATION REPORT (Audited)

Introduction

The Directors of International Ferro Metals Limited present the Remuneration Report for the Group for the year ended 30 June 2010. This Remuneration Report forms part of the Directors' Report in accordance with the requirements of the Corporation Act 2001 and its Regulations. The Remuneration Committee believes the report complies with the requirements of the UK Companies Act 2006 (and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made thereunder) and the relevant requirements of the Listing Rules of the UK Listing Authority. A resolution to approve the report will be proposed at the Annual General Meeting ("AGM") of the Company on 24 November 2010.

For the purposes of this report Key Management Personnel 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, and includes the five executives of the Parent and the Group receiving the highest remuneration.

Table 1- The details of the Key Management Personnel are:

Name	Position
Anthony Grey*	Non-executive Chairman
Stephen Turner*	Non-executive Deputy Chairman
David Kovarsky	Chief Executive Officer "CEO"
Xiaoping Yang	Executive director – IFMSA and Non-executive director - IFML
Jannie Muller	Finance director and Chief Financial Officer (Appointed director 18 March 2010)
Terence Willstead*	Independent Chairman – Remuneration Committee
Ian Watson*	Non-executive director – IFML (Retired 12 November 2009)
Stephen Oke*	Independent Chairman – Audit Committee
Tian Xia*	Non-executive director – IFML
John Ballard*	Independent Non-executive director – IFML (Appointed 9 March 2010)
Wimpie van Wyk	General Manager - Mining (Appointed 1 January 2010)
Michael Lillja	General Manager - Marketing (Appointed 14 March 2010)
Maarten Nienaber	General Manager – Works (Appointed 1 May 2010)

*non executive director

Remuneration committee

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing remuneration arrangements for the directors and executive management. The Committee members who served at any time during the year were as follows:

- Terence Willstead (Chairman)
- Stephen Oke
- Ian Watson (retired 12 November 2009)
- John Ballard (appointed 21 June 2010)

The number of meetings of held during the year and the numbers of meetings attended by each committee member follows:

Terence Willstead	7 (7) out of 7
Stephen Oke	7 (7) out of 7
Ian Watson	2 (3) out of 7
John Ballard	0 (1) out of 7

() number of meetings held while a committee member

The Chief Executive Officer attends meetings of the Remuneration Committee at the invitation of the Chairman of the Remuneration Committee. In the course of its deliberations, the Committee considered the views of the Chief Executive

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

on the remuneration and performance of senior executives. No Director is present when his own remuneration is being discussed.

Remuneration policy and principles

The Remuneration Committee will assess the appropriateness of the nature and amount of emoluments of officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality directors and executive management.

The Committee is currently undertaking a comprehensive review of the company's executive remuneration policies to ensure they are in line with best practice and reinforce alignment with shareholder interests.

The Company's upgraded remuneration policies will be finalised during the 2011 financial year and will embrace the following principles:

- The remuneration structures will be simple and transparent and will be benchmarked against other international miners and against other companies of similar size. The Company's remuneration will be structured to deliver approximately median total remuneration for median performance and upper quartile remuneration for upper quartile performance.
- A meaningful proportion of senior executive remuneration will be delivered through long-term share-based pay. Long-term pay will accrue to the executive on the achievement of long term goals that will be compared to industry peers and company performance. Where possible, senior executives will be encouraged to retain shares vesting from the Company's incentive schemes until a minimum shareholding is achieved.
- Annual bonuses will be based on company financial, operational and individual performance.
- Incentive targets may be adjusted by the Remuneration Committee for significant non-performance-related items which are wholly outside management control and may otherwise distort the measurement of performance, such as changes in accounting standards. The rules governing vested-but-deferred awards will incorporate a provision allowing the Remuneration Committee to claw back incentive payments if the performance that justified their payment is subsequently found to have been misjudged or misstated.

The Committee will consult with its shareholders on proposed changes in due course.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

Objective

To enable the Company to attract and retain the services of suitable individuals to serve as directors, the Board seeks to remunerate at a level that provides the Company with this objective, while incurring a cost that is acceptable to shareholders.

Structure

The LSE Listing rules and Board Charter specify that the maximum aggregate cash fees of non-executive directors shall be approved by shareholders. The shareholders have approved the maximum aggregate cash remuneration of £750,000 per annum at the AGM on 12 November 2008.

Each non-executive director receives a base fee per annum, as detailed in Table 2, with additional fees for Committee activities. Non-executive director fees do not vary according to the performance of the Company nor do non-executive directors receive retirement benefits other than those required by legislation.

During the year it was decided that the exchange rate differential for all non-executive directors be removed by using the current Australian Dollar fees for all non-executive directors and any currency conversions would be made on the date of remittance. This change took effect from 1 July 2009.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

On 12 November 2009 it was announced that Mr Willstead and Mr Oke agreed to voluntarily cancel the provision in their contracts that would allow them to receive a payment in the event of a takeover of IFM. With the removal of this right, Mr Willstead and Mr Oke are undeniably independent directors.

Non-executive director fees have previously included the possibility of share options, but the Board has decided not to make any further option grants to non-executive directors. Only two non-executive directors, Anthony Grey and Stephen Turner, continue to hold options and these were granted to them while they were executives.

The remuneration of non-executive directors for the years ended 30 June 2010 and 30 June 2009 is detailed in Tables 2 and 3 of this report respectively.

Executive Remuneration

Objective

The Group aims to reward executives with a level and mix of remuneration that is commensurate with their position and responsibilities within the Group so as to align the interests of executives with those of shareholders and ensure total remuneration is competitive by industry standards.

Structure

The remuneration levels for executives are market-aligned by comparison against equivalent roles in similar operations and industries. The Remuneration Committee engages external consultants to provide independent advice on salary levels and incentives for comparable executive positions in similar company structures.

The Group has entered into detailed contracts of employment with Key Management Personnel and standard contracts with other executives. Details of these contracts are provided below.

Remuneration consists of the following key elements:

- Fixed remuneration (base salary, superannuation, consulting fees and non-monetary benefits);
- Variable remuneration, consisting of:
 - short term incentive (STI); and
 - long term incentive (LTI).

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) for each executive is set out in Table 2.

Fixed Remuneration

Objective

Fixed remuneration is reviewed annually by the Remuneration Committee. The last review was performed on 30 June 2010. The process consists of a review of relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and practices. As noted above, the Committee has access to external advice independent of management.

Structure

Executives receive their fixed remuneration in cash. Details of the fixed remuneration component of executives are detailed in Table 2. From 1 May 2009 to 31 August 2009, all senior employees, including board members, took a voluntary ten percent reduction in salary.

Variable Remuneration - Short Term Incentive (STI)

Objective

The objective of the STI is to link the achievements of the Group's production targets with the remuneration received by the executives responsible to meet those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executives to achieve the operational targets and at a cost to the Group that is reasonable in the circumstances.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Structure

Actual STI payments granted to each executive depends on the extent to which specific targets are met. Provisions are accrued in the financial year in which the targets are set, with payments delivered as a cash bonus in the following reporting period.

Due to the company's financial performance during the 2010 financial year no STI bonuses were approved.

Variable Remuneration – Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward executives in a manner that provides incentives aimed at increasing the market value of the Group and as a retention mechanism. This incentive is separate from the bonus schemes which are related to short term performances.

Structure

A Phantom Option Scheme was introduced on 15 November 2006 as a long term incentive scheme. Options are offered to eligible Key Management Personnel subject to the satisfaction of certain vesting and exercise conditions. A cash amount is determined by reference to the excess of the market price of an ordinary share in the Company over the exercise price at the time the options are exercised. The options, in most cases, vest in equal tranches over three years subject to the recipients' continued employment by the Company. The options may also vest immediately. Vesting and exercise conditions are determined by the Board. Executives are able to exercise the share options for up to five years from the grant of the options.

Each tranche of these options has a price cap of £1.00. The options vest in equal tranches over three years. Although historically no supplementary performance conditions have been attached to the vesting of option grants (in line with South African practice), this will be reviewed as part of the wider remuneration review during the 2011 financial year. Refer to Table 4 of this report for details of the phantom options granted.

For each phantom option issuance, specific terms relating to vesting conditions, term and pricing are recommended by the Remuneration Committee and, if deemed appropriate, approved by the Board.

Equity settled share options have been granted to directors usually at the time of joining the Board. There are no outstanding equity options at year end.

Share Trading and Margin Loans by Directors and Executives

Directors and executives are not permitted to hedge their shareholdings or share options except where each of the following requirements has been satisfied:

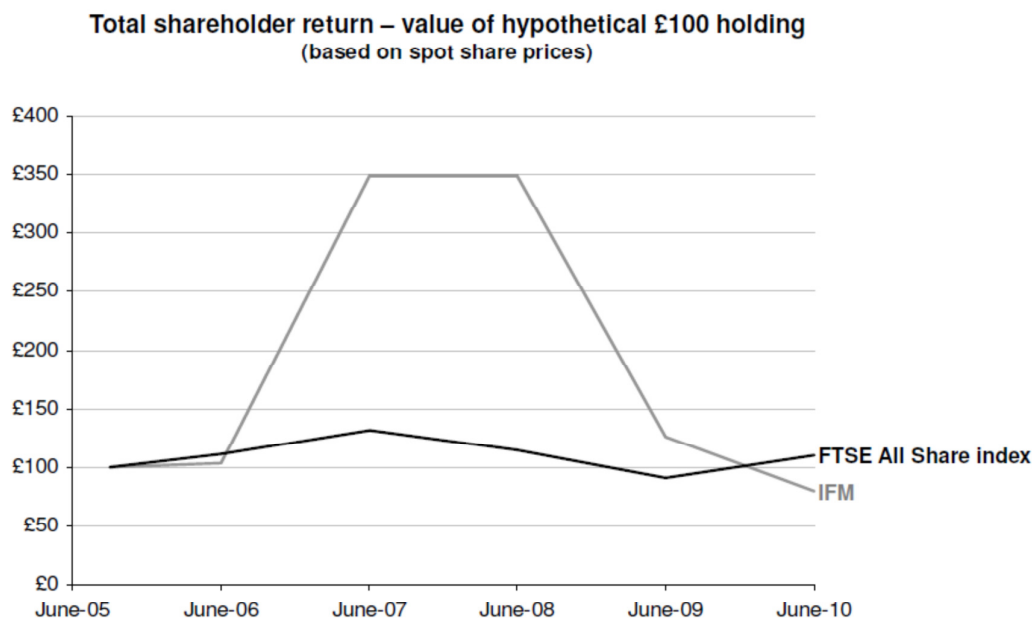
- permission has been obtained from the Chairman;
- the shares have fully vested and are not subject to any hurdles or transfer restriction;
- the hedge transaction is treated as a sale or purchase of shares by the director or executive and the relevant approvals, disclosures (to the LSE, as appropriate) and notifications are made on this basis;
- the hedge transaction may not be entered into, renewed, altered or closed out when the director or executive is in possession of price sensitive information; and
- all costs or expenses associated with any hedging arrangement are to the director's or executive's own account.

No such requests for hedging shareholdings or share options have been received.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Performance review

Set out below is the Company's share price performance between September 2005 and June 2010.



Source: Bloomberg

Notes: TSR based on September 2005 IPO / year-end prices

The graph above compares the Company's total shareholder return over the period from September 2005 to June 2010 with the FTSE All Share Index.

The Company is a member of the FTSE All Share Index and, accordingly, this is considered to be an appropriate broad equity market index for the purpose of demonstrating the Company's relative performance.

Employment Contracts

The following should be read with reference to the "STI" structure, "LTI" structure (above) and tables 2 and 4 (below).

Mr Anthony Grey

Non-Executive Chairman (appointed 1 January 2009)

The current service agreement commenced 1 January 2009. Under the terms of the present contract:

- Mr Grey is paid a service fee, in his current role as Non-Executive Chairman, of A\$275,000 per annum, an additional fee of A\$25,000 per annum for all Board committees and an additional fee of A\$12,500 per annum for acting as Chairman of such committees.
- Mr Grey will provide his services as director for four days per month.
- Additional consulting work for the Company undertaken by Mr Grey for more than four days in any month is paid at the rate of A\$450 per hour.
- Mr Grey did not undertake additional work for the Company during the year.
- Mr Grey was not granted any equity settled share options during the year ended 30 June 2010.
- Mr Grey was not granted any phantom options during the year ended 30 June 2010.
- The service agreement may be terminated at any time by Mr Grey giving the Company not less than twelve month's notice in writing. 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. Payment is also applicable if there is a 50% or more takeover bid and any options outstanding will immediately vest and be exercisable, and only applies if employment is terminated. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Grey's employment at any time without any compensation payable.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Mr Stephen Turner

Non-Executive Deputy-Chairman (appointed 1 January 2009)

The current service agreement commenced 1 January 2009. Under the terms of the present contract:

- Mr Turner is paid a service fee, in his current role as Non-Executive Deputy Chairman, of A\$200,000 per annum, an additional fee of A\$25,000 per annum for all Board committees and an additional fee of A\$12,500 per annum for acting as Chairman of such committees..
- Mr Turner will provide his services as director for four days per month.
- Additional consulting work for the Company undertaken by Mr Turner for more than four days in any month is paid at the rate of A\$450 per hour.
- Mr Turner did not undertake additional work for the Company during the year.
- Mr Turner was not granted any equity settled share options during the year ended 30 June 2010.
- Mr Turner was not granted any phantom options during the year ended 30 June 2010.
- The service agreement may be terminated at any time by Mr Turner giving the Company not less than twelve month's notice in writing. 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. Payment is also applicable if there is a 50% or more takeover bid and any options outstanding will immediately vest and be exercisable and only applies if employment is terminated. 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 Terence Willsteed

Non-Executive Director

Mr Willsteed was appointed non-executive director on 12 October 2005. Under the terms of the present contract:

- Mr Willsteed is paid a service fee of A\$125,000 per annum, an additional fee of A\$25,000 per annum for all Board committees and an additional fee of A\$12,500 per annum for acting as Chairman of such committees..
- Mr Willsteed will provide his services as director for two days per month.
- If his Board activities require him to allot more time than this, the fee will be adjusted on a pro rata per diem basis at the discretion of the Board.
- Mr Willsteed was not granted any share options during the year ended 30 June 2010.
- Mr Willsteed was not granted any phantom options during the year ended 30 June 2010.
- The service agreement may be terminated at any time by Mr Willsteed giving the Company not less than twelve months notice in writing. 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. On 12 November 2009, Mr Willsteed voluntarily agreed to cancel the provision in his contract that would allow him to receive a payment in the event of a successful acquisition of IFM. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Willsteed's employment at any time without any compensation payable.

Mr Ian Watson

Non-Executive Director (retired 12 November 2009)

Under the terms of his contract:

- Mr Watson was paid a service fee of ZAR265,050 up to 12 November 2009.
- Mr Watson provided his services as director for two days per month.
- Mr Watson retired and was paid a termination payment of ZAR837,000 according to his non-executive employment contract.
- Mr Watson was not granted any share options during the year ended 30 June 2010.
- Mr Watson was not granted any phantom options during the year ended 30 June 2010.

Mr Stephen Oke

Non-Executive Director

Mr Oke was appointed a non-executive director on 16 November 2006. Under the terms of the present contract:

- Mr Oke is paid a service fee of A\$125,000 per annum, an additional fee of A\$25,000 per annum for all Board committees and an additional fee of A\$12,500 per annum for acting as Chairman of such committees.
- Mr Oke will provide his services as director for two days per month.
- If his Board activities require him to allot more time than this, the fee will be adjusted on a pro rata per diem basis at the discretion of the Board.
- Mr Oke did not undertake additional work for the Company during the year.
- Mr Oke was not granted any share options during the year ended 30 June 2010.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

- Mr Oke was not granted any phantom options during the year ended 30 June 2010.
- The service agreement may be terminated at any time by Mr Oke giving the Company not less than twelve month's notice in writing. 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. On 12 November 2009, Mr Oke voluntarily agreed to cancel the provision in his contract that would allow him to receive a payment in the event of a successful acquisition of IFM. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Oke's employment at any time without any compensation payable.

Ms Tian Xia

Non-Executive Director

Ms Xia was appointed a Non-Executive director on 16 November 2006. Under the terms of the present contract:

- Ms Xia is paid a service fee of A\$125,000 per annum, an additional fee of A\$25,000 per annum for all Board committees and an additional fee of A\$12,500 per annum for each Board committee of which she is a Chairperson acting as Chairperson of such committees.
- Ms Xia will provide her services as director for two days per month.
- If her Board activities require her to allot more time than this, the fee will be adjusted on a pro rata per diem basis at the discretion of the Board.
- Ms Xia did not undertake additional work for the Company during the year.
- Ms Xia was not granted any share options during the year ended 30 June 2010.
- Ms Xia was not granted any phantom options during the year ended 30 June 2010.
- The service agreement may be terminated at any time by Ms Xia giving the Company not less than twelve month's notice in writing. 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. If a successful acquisition is accepted by holders of at least 50% of shares, Ms Xia will receive a fee of £42,500 for an offer of 50 pence per share increasing by £1,250 for each 1 pence variation per share above 50 pence, with any increase capped at an offer price of £1 per share. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Ms Xia's employment at any time without any compensation payable.

Mr John Ballard

Non-Executive Director

Mr Ballard was appointed a Non-Executive director on 9 March 2010. Under the terms of the present contract:

- Mr Ballard is paid a service fee of A\$125,000 per annum, an additional fee of A\$25,000 per annum for all Board committees and an additional fee of A\$12,500 per annum for acting as Chairman of such committees.
- Mr Ballard will provide his services as director for two days per month.
- If his Board activities require him to allot more time than this, the fee will be adjusted on a pro rata per diem basis at the discretion of the Board.
- Mr Ballard did not undertake additional work for the Company during the year.
- Mr Ballard was not granted any share options during the year ended 30 June 2010.
- Mr Ballard was not granted any phantom options during the year ended 30 June 2010.
- The service agreement may be terminated at any time by Mr Ballard giving the Company not less than twelve months notice in writing. 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 Ballard's employment at any time without any compensation payable.

Mr David Kovarsky

Chief Executive Officer

Mr Kovarsky is employed under a fixed contract commencing from 1 February 2008. The employment term is for four years, subject to termination provisions. Under the terms of the present contract:

- Mr Kovarsky is paid an annual salary of ZAR3,564,281.
- A retention fee of ZAR8,997,492, was paid for the services that Mr Kovarsky will provide over the period of his employment contract. The amortised value of this retention fee amounted to ZAR2,249,373 for the year ending 30 June 2010. Should Mr Kovarsky resign prior to the end of his employment contract, he will repay the remaining unamortised value as at the date of his resignation. On termination or death, the fee is not repayable.
- Mr Kovarsky was not granted any share options during the year ended 30 June 2010.
- Mr Kovarsky was not granted any phantom options during the year ended 30 June 2010.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

- The service agreement may be terminated at any time by Mr Kovarsky giving the Company not less than six month's notice in writing. The Company may terminate the agreement without cause by providing not less than twelve months written notice provided that such notice cannot be given by IFM within the first six calendar months of Mr Kovarsky's employment or on expiry of the first six calendar months of Mr Kovarsky's employment by paying his cost to company for the twelve months immediately prior to ceasing employment, including bonuses, in lieu of such notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Kovarsky's employment at any time. A termination payment will not be payable on resignation or dismissal for serious misconduct.
- In the event of a takeover, IFM will pay the equivalent of Mr Kovarsky's cost to company (subject to any adjustments in the cost to company that have occurred as a result of the annual review of Mr Kovarsky's remuneration), including any bonuses that Mr Kovarsky would reasonably have been expected to have received within twelve months and only applies if employment is terminated.

Mr Xiaoping Yang

Non-Executive director of the Company and executive director of IFMSA

Mr Yang was appointed Non-Executive director of the Company and as an Executive Director of IFMSA on 12 October 2005. Mr Yang is not entitled to an additional annual director's fee for acting as a director of the Company. IFMSA entered into a service contract on 20 March 2006 with Mr Yang. He is employed under a rolling contract. Under the terms of the present contract:

- Mr Yang is paid an annual salary of ZAR2,212,308.
- Mr Yang was not granted any share options during the year ended 30 June 2010.
- Mr Yang was not granted any phantom options during the year ended 30 June 2010.
- The service contract may be terminated without cause by either party giving not less than thirty day's notice in writing, or by IFMSA paying Mr Yang his remuneration for such period in lieu of notice. IFMSA may also terminate the service contract without notice if Mr Yang is in breach of the service contract without making any termination payment.

Mr Jannie Muller

Finance Director and Chief Financial Officer

Mr Muller entered into a service agreement with IFML on 1 June 2007 as Group Financial Manager. On the 23 of July 2009, Mr Muller was appointed Chief Financial Officer. Mr Muller has since been appointed to the Board of Directors as Finance Director effective 18 March 2010. Mr Muller is employed under a rolling contract. Under the terms of the present contract:

- Mr Muller is paid an annual salary of ZAR2,400,000.
- Mr Muller was not granted any share options during the year ended 30 June 2010.
- Mr Muller was granted 60,000 additional phantom options with an exercise price of 57p on 30 September 2009. For further details refer to "LTI" structure and Table 4.
- The service agreement may be terminated at any time by Mr Muller giving the Company not less than six month's notice in writing. The Company may terminate the agreement without cause by providing not less than six months written notice or by making a lump sum payment in lieu of any such period of notice equal to 50% of the then current annual salary at the termination date. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Muller's employment at any time without any compensation payable.

Mr Wimpie van Wyk

General Manager – Mining – IFMSA (Appointed 1 January 2010)

- Mr van Wyk is paid an annual salary of ZAR2,800,000.
- Mr van Wyk was paid a consultancy fee of ZAR 200,000 per month for the first three months of his employment and received an additional bonus of R295,000 on 30 June 2010.
- Mr van Wyk was not granted any share options during the year ended 30 June 2010.
- Mr van Wyk was granted 250,000 phantom options with an exercise price of 31p on 1 January 2010. For further details refer to "LTI" structure and Table 4.
- The service agreement may be terminated at any time by Mr van Wyk giving the Company not less than three month's notice in writing. The Company may terminate the agreement without cause by providing not less than three months written notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr van Wyk's employment at any time without any compensation payable.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Mr Michael Lillja

General Manager - Marketing (Appointed 14 March 2010)

- Mr Lillja is paid an annual salary of €235,000.
- Mr Lillja was not granted any share options during the year ended 30 June 2010.
- Mr Lillja was granted 250,000 phantom options with an exercise price of 40p on 31 March 2010. For further details refer to "LTI" structure and table 4.
- The service agreement may be terminated at any time by Mr Lillja giving the Company not less than three month's notice in writing. The Company may terminate the agreement without cause by providing not less than three months written notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Lillja's employment at any time without any compensation payable.

Mr Maarten Nienaber

General Manager - Works (Appointed 1 May 2010)

- Mr Nienaber is paid an annual salary of ZAR2,400,000.
- Mr Nienaber was not granted any share options during the year ended 30 June 2010.
- Mr Nienaber was granted 250,000 phantom options with an exercise price of 34p on 30 June 2010. For further details refer to "LTI" structure and table 4.
- The service agreement may be terminated at any time by Mr Nienaber giving the Company not less than three month's notice in writing. The Company may terminate the agreement without cause by providing not less than three months written notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Nienaber's employment at any time without any compensation payable.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Remuneration and pension entitlements of Key Management Personnel

Table 2: Remuneration for the year ended 30 June 2010

	Fixed					STI	LTI	Total			
	Salary & Fees ²	Leave accrued ³	Other Fees ⁴	Termination Payments ⁵	Post-employment Super-Annuation ⁶	Incentive Payments ⁷	Fair value of Phantom Options (cash settled) ⁸		Fixed	STI	LTI
	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	%	%	%
Non-executive directors											
<i>Anthony Grey</i>	2,061,924	-	-	-	-	-	679,677	2,741,601	76	-	24
<i>Stephen Turner</i>	1,484,588	-	-	-	-	-	679,677	2,164,265	69	-	31
<i>Terence Willsteed</i>	1,151,215	-	-	-	-	-	-	1,151,215	100	-	-
<i>Ian Watson</i>	341,252	-	-	837,000	-	-	-	1,178,252	100	-	-
<i>Stephen Oke</i>	1,072,205	-	-	-	-	-	-	1,072,205	100	-	-
<i>Tian Xia</i>	824,783	-	-	-	-	-	-	824,783	100	-	-
<i>John Ballard</i>	243,745	-	-	-	21,937	-	-	265,682	100	-	-
Sub-total non-executive directors	7,179,712	-	-	837,000	21,937	-	1,359,354	9,398,003			
Executive directors											
<i>David Kovarsky¹</i>	3,504,877	54,224	⁵ 2,249,373	-	-	-	438,501	6,246,975	93	-	7
<i>Xiaoping Yang¹</i>	2,175,437	79,982	-	-	-	-	157,561	2,412,980	93	-	7
<i>Jannie Muller¹</i>	2,035,269	253,801	-	-	-	-	76,118	2,365,188	97	-	3
Sub-total executive directors	7,715,583	388,007	2,249,373	-	-	-	672,180	11,025,143			

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Remuneration and pension entitlements of Key Management Personnel

Table 2: Remuneration for the year ended 30 June 2010 (continued)

	Fixed					STI	LTI	Total			
	Salary & Fees ²	Leave accrued ³	Other Fees ⁴	Termination Payments ⁵	Post-employment Super-Annuation ⁶	Incentive Payments ⁷	Fair value of Phantom Options (cash settled) ⁸		Fixed	STI	LTI
	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	%	%	%
Other “KMP”											
<i>Wimpie van Wyk</i> ¹	1,400,000	134,592	⁵ 600,000	-	-	295,000	52,811	2,482,403	86	12	2
<i>Michael Lillja</i> ¹	738,374	78,073	-	-	-	-	21,370	837,817	97	-	3
<i>Maarten Nienaber</i> ¹	400,000	19,996	-	-	-	-	-	419,996	100	-	-
Sub-total other KMP	2,538,374	232,661	600,000	-	-	295,000	74,181	3,740,216			
Total Remuneration	17,433,669	620,668	2,849,373	837,000	21,937	295,000	2,105,715	24,163,362	90	1	9

Mr van Dyk and Mr Visser did not meet the definition of a Key Management Person (“KMP”) for the 2010 financial year, along with Mr Cohen who resigned as CFO on 23 July 2010.

¹ Refer to Table 1 for details of the KMP position.

² Effective 1 May 2009 and until 31 August 2009, all KMP, including board members, took a 10 percent voluntary reduction in salary.

³ These amounts represent movement in leave accruals during the year.

⁴ Included in other fees is an amortised portion of Mr Kovarsky’s retention fee which represents R2,249,373 and a consultancy fee of R600,000 paid to Mr Van Wyk as part of his employment contract.

⁵ Termination payments have been made in accordance with individual employment contract. Refer to the above section relating to employment contracts.

⁶ Includes superannuation payments and any voluntary fee sacrifice to superannuation.

⁷ No “STI” bonuses were approved during the 2010 financial year, except for payment to Mr van Wyk as part of his employment contract.

⁸ Options are granted with certain vesting and exercise conditions, with the fair value recorded at each reporting date until it is settled, by using an option-pricing model. No Option have been exercised or paid.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Remuneration and pension entitlements of Key Management Personnel

Table 3: Remuneration for the year ended 30 June 2009

	Fixed						STI	LTI			Total	% breakdown		
	Salary & Fees ²	Leave accrued ³	Other Fees ⁴	Termination Payments ⁵	Post-employment Super-annuation ⁶	Non-monetary benefits ⁷	Incentive Payments ⁸	Fair value of Phantom Options (cash settled) ⁹	Fair value of Phantom Options (cancelled) ¹⁰	Share Based Payments Options ¹¹	ZAR	Fixed	STI	LTI ¹²
	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR		%	%	%
Non-executive directors														
<i>Anthony Grey¹</i>	1,005,938	-	-	-	-	22,770	-	992,997	-	-	2,021,705	51	-	49
<i>Stephen Turner¹</i>	625,965	-	-	-	-	-	-	992,997	-	-	1,618,962	39	-	61
<i>Terence Willsteed</i>	1,157,459	-	-	-	12,488	-	-	-	(582,229)	-	587,718	100	-	-
<i>Ian Watson</i>	811,425	-	-	-	-	-	-	-	(1,959,484)	-	(1,148,059)	100	-	-
<i>Stephen Oke</i>	919,780	-	-	-	-	-	-	-	(582,229)	-	337,551	100	-	-
<i>Tian Xia</i>	707,565	-	-	-	-	-	-	-	(582,229)	-	125,336	100	-	-
Sub-total non-executive directors	5,228,132	-	-	-	12,488	22,770	-	1,985,994	(3,706,171)	-	3,543,213			
Executive directors														
<i>David Kovarsky¹</i>	3,208,125	33,965	2,249,373	-	-	-	-	640,643	-	1,618,428	7,750,534	71	-	29
<i>Anthony Grey¹</i>	832,500	-	958,378	7,201,258	74,925	31,881	-	-	(4,713,476)	-	4,385,466	100	-	-
<i>Stephen Turner¹</i>	1,972,654	-	-	7,826,679	177,539	-	-	-	(4,713,476)	-	5,263,396	100	-	-
<i>Xiaoping Yang</i>	1,991,250	3,141	-	-	-	-	-	257,098	(2,608,617)	-	(357,128)	89	-	11
<i>Ronald Barnard¹</i>	21,831	-	-	4,714,576	-	-	-	-	(4,941,493)	-	(205,086)	100	-	-
Sub-total executive directors	8,026,360	37,106	3,207,751	19,742,513	252,464	31,881	-	897,741	(16,977,062)	1,618,428	16,837,182			

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Remuneration and pension entitlements of Key Management Personnel

Table 3: Remuneration for the year ended 30 June 2009 (continued)

	Fixed						STI	LTI			Total	% breakdown		
	Salary & Fees ²	Leave accrued ³	Other Fees ⁴	Termination Payments ⁵	Post-employment Super-annuation ⁶	Non-monetary benefits ⁷	Incentive Payments ⁸	Fair Value of Phantom Options (cash settled) ⁹	Fair value of Phantom Options (cancelled) ¹⁰	Share Based Payments Options ¹¹		Fixed	STI	LTI ¹²
	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	%	%	%
Other "KMP"														
<i>Dion Cohen</i> ¹	2,550,202	260,625	-	-	333,000	27,326	-	639,522	(2,967,186)	-	843,489	83	-	17
<i>Jannie Muller</i> ¹	1,216,893	-	-	-	-	-	-	109,464	(200,588)	-	1,125,769	92	-	8
<i>Hannes Van Dyk</i> ¹	1,133,333	52,490	-	-	-	-	-	144,032	-	-	1,329,855	89	-	11
<i>Hannes Visser</i> ¹	1,725,565	87,942	-	-	-	-	-	144,032	-	-	1,957,539	93	-	7
Sub-total other KMP	6,625,993	401,057	-	-	333,000	27,326	-	1,037,050	(3,167,774)	-	5,256,652			
Total Remuneration	19,880,485	438,163	3,207,751	19,742,513	597,952	81,977	-	3,920,785	(23,851,007)	1,618,428	25,637,047			

¹ Refer to Table 1 for details of the KMP position.

² Effective 1 May 2009 to 31 August 2009 all KMP, including board members, took a 10 per cent voluntary reduction in salary.

³ These amounts represent movement in leave accruals during the year.

⁴ Included in other fees is an amortised portion of Mr Kovarsky's retention fee which represents R2,249,373.

⁵ Termination payments have been made in accordance with individual employment contract. Refer to the above section relating to employment contracts.

⁶ Includes superannuation payments and any voluntary fee sacrifice to superannuation.

⁷ This figure represents the value of car parking provided.

⁸ No "STI" bonuses were approved during the 2009 financial year.

⁹ Options are granted with certain vesting and exercise conditions, with the fair value recorded at each reporting date until it is settled, by using an option-pricing model.

¹⁰ On 30 December 2008 the Company cancelled all outstanding phantom options.

¹¹ Due to the cancellation of equity options on 30 December 2008, the Company has accelerated the amortisation of the remaining fair value of the equity options issued to Mr Kovarsky.

¹² Calculation of LTI percentages exclude cancelled phantom options.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Key Management Personnel: Phantom Options

Table 4: The following table sets out the details of phantom options granted and vested during the year by Key Management Personnel (Consolidated)

30 June 2010	Terms and Conditions for each Grant									Exercisable	
	Balance at beginning of period 1 July 2009	Granted no of options	Grant date	Fair value per option Note 31	Exercise price per option	Price cap per option	Expiry date	First available exercise date	Last available exercise date	No of options	%
Non-executive directors											
<i>Anthony Grey</i>	516,667	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	516,667	33
	516,667	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	-	-
	516,666	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
<i>Stephen Turner</i>	516,667	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	516,667	33
	516,667	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	-	-
	516,666	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
<i>Terence Willsteed</i>	-	-		-	-	-				-	-
<i>Ian Watson</i>	-	-		-	-	-				-	-
<i>Stephen Oke</i>	-	-		-	-	-				-	-
<i>Tian Xia</i>	-	-		-	-	-				-	-
<i>John Ballard</i>	-	-		-	-	-				-	-
Subtotal	3,100,000									1,033,334	
Executive directors											
<i>David Kovarsky</i>	333,333	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	333,333	33
	333,333	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	-	-
	333,334	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
<i>Xiaoping Yang</i>	148,750	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	148,750	33
	148,750	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	-	-
	148,750	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
<i>Jannie Muller</i>	63,333	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	63,333	33
	63,333	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	-	-
	63,334	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
	-	20,000	30/09/2009	£0.03	£0.57	£1.00	29/09/2014	30/09/2010	29/09/2014	-	-
	-	20,000	30/09/2009	£0.03	£0.57	£1.00	29/09/2014	30/09/2011	29/09/2014	-	-
	-	20,000	30/09/2009	£0.03	£0.57	£1.00	29/09/2014	30/09/2012	29/09/2014	-	-
Subtotal	1,636,250	60,000								545,416	

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Key Management Personnel: Phantom Options (continued)

Table 4: The following table sets out the details of phantom options granted and vested during the year by Key Management Personnel (Consolidated) (continued)

30 June 2010	Terms and Conditions for each Grant									Exercisable	
	Balance at beginning of period 1 July 2009	Granted no of options ²	Grant date	Fair value per option Note 31	Exercise price per option	Price cap per option	Expiry date	First available exercise date	Last available exercise date	No of options	%
Other “KMP”											
<i>Wimpie van Wyk</i>	-	83,333	1-Jan-10	£0.06	£0.31	£1.00	31/12/2014	31/12/2010	31/12/2014	-	-
	-	83,333	1-Jan-10	£0.06	£0.31	£1.00	31/12/2014	31/12/2011	31/12/2014	-	-
	-	83,334	1-Jan-10	£0.06	£0.31	£1.00	31/12/2014	31/12/2012	31/12/2014	-	-
<i>Michael Lillja</i>	-	83,333	31-Mar-10	£0.05	£0.40	£1.00	30/03/2015	31/03/2011	30/03/2015	-	-
	-	83,333	31-Mar-10	£0.05	£0.40	£1.00	30/03/2015	30/03/2012	30/03/2015	-	-
<i>Maarten Nienaber</i>	-	83,334	31-Mar-10	£0.04	£0.40	£1.00	30/03/2015	30/03/2013	30/03/2015	-	-
	-	83,333	30-Jun-10	£0.05	£0.34	£1.00	29/06/2015	30/06/2011	29/06/2015	-	-
	-	83,333	30-Jun-10	£0.05	£0.34	£1.00	29/06/2015	29/06/2012	29/06/2015	-	-
	-	83,334	30-Jun-10	£0.05	£0.34	£1.00	29/06/2015	29/06/2013	29/06/2015	-	-
Subtotal	-	750,000								-	-
Total	4,736,250	810,000								1,578,750	

¹ Mr Visser and Mr van Dyk did not meet the definition of a Key Management Person (“KMP”) for the 2010 financial year.

² These options were issued in accordance with the Phantom Option Plan (refer to “LTI” structure for further details).

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Key Management Personnel: Phantom Options (continued)

Table 4: The following table sets out the details of phantom options granted and vested during the year by Key Management Personnel (Consolidated) (continued)

30 June 2009	Terms and Conditions for each Grant								Exercisable	
	Balance at beginning of period 1 July 2008	Grant date	Fair value per option Note 31	Exercise price per option	Price cap per option	Expiry date	First available exercise date	Last available exercise date	No of options	%
Non-executive directors										
<i>Anthony Grey</i> ³	516,667	30/12/2008	£0.15	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	-	-
	516,667	30/12/2008	£0.15	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	-	-
	516,666	30/12/2008	£0.14	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
<i>Stephen Turner</i> ³	516,667	30/12/2008	£0.15	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	-	-
	516,667	30/12/2008	£0.15	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	-	-
	516,666	30/12/2008	£0.14	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
<i>Terence Willsteed</i>	-		-	-	-				-	-
<i>Ian Watson</i>	-		-	-	-				-	-
<i>Stephen Oke</i>	-		-	-	-				-	-
<i>Tian Xia</i>	-		-	-	-				-	-
Subtotal	3,100,000								-	-
Executive directors										
<i>David Kovarsky</i>	333,333	30/12/2008	£0.15	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	-	-
	333,333	30/12/2008	£0.15	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	-	-
	333,334	30/12/2008	£0.14	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
<i>Xiaoping Yang</i>	148,750	30/12/2008	£0.15	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	-	-
	148,750	30/12/2008	£0.15	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	-	-
	148,750	30/12/2008	£0.14	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
<i>Ronald Barnard</i> ⁴	-		-	-	-				-	-
Subtotal	1,446,250								-	-

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Key Management Personnel: Phantom Options (continued)

Table 4: The following table sets out the details of phantom options granted and vested during the year by Key Management Personnel (Consolidated) (continued)

30 June 2009	Terms and Conditions for each Grant								Exercisable	
	Granted no of options ²	Grant date	Fair value per option Note 31	Exercise price per option	Price cap per option	Expiry date	First available exercise date	Last available exercise date	No of options	%
Other “KMP” Dion Cohen⁵	332,750	30/12/2008	£0.15	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	-	-
	332,750	30/12/2008	£0.15	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	-	-
<i>Jannie Muller</i>	332,750	30/12/2008	£0.14	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
	63,333	30/12/2008	£0.15	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	-	-
	63,333	30/12/2008	£0.15	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	-	-
<i>Hannes Van Dyk</i>	63,334	30/12/2008	£0.14	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
	83,333	30/12/2008	£0.15	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	-	-
	83,333	30/12/2008	£0.15	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	-	-
<i>Hannes Visser</i>	83,334	30/12/2008	£0.14	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
	83,333	30/12/2008	£0.15	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	-	-
	83,333	30/12/2008	£0.15	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	-	-
	83,334	30/12/2008	£0.14	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
Subtotal	1,688,250								-	-
Total	6,234,500								-	-

¹ On 30 December 2008 the Company cancelled all outstanding phantom options, excluding Mr Barnard who forfeited his options upon his resignation.

² These options were issued in accordance with the Phantom Option Plan (refer to “LTI” structure for further details).

³ Non-Executive roles taken up effective 1 January 2009.

⁴ Mr Barnard resigned 17 July 2008.

⁵ Mr Cohen resigned 23 July 2009.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Key Management Personnel options (continued)

30 June 2010

No phantom options were exercised by Key Management Personnel or forfeited during the financial year ending 30 June 2010.

30 June 2009

No phantom options were exercised by Key Management Personnel or forfeited during the financial year ending 30 June 2009.

Key Management Personnel: Share Options

30 June 2010

No share options were issued during the year ended 30 June 2010.

30 June 2009

On 30 December 2008, the Board resolved to cancel all share options on issue. No new share options were issued during the year ended 30 June 2009.

30 June 2010

No share options were exercised during the year ended 30 June 2010 by Key Management Personnel.

30 June 2009

No share options were exercised during the year ended 30 June 2009 by Key Management Personnel.

Key Management Personnel Shareholdings

Shareholdings of Key Management Personnel are detailed on pages 77 and 78 of this report.

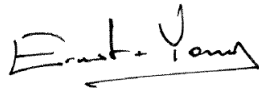
Signed in accordance with a resolution of the directors.



David Kovarsky
Director
Sydney, 27 September 2010

Auditor's Independence Declaration to the Directors of International Ferro Metals Limited

In relation to our audit of the financial report of International Ferro Metals Limited for the financial year ended 30 June 2010, 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.

A stylized signature of the Ernst & Young logo, written in a cursive script.

Ernst & Young

A handwritten signature in cursive script, appearing to read 'A. Ivanyi'.

Anton Ivanyi
Partner
Sydney
27 September 2010

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated	
		2010 ZAR'000	2009 ZAR'000
Sales revenue	5	1,433,595	781,574
Cost of goods sold		(1,424,817)	(868,977)
Gross profit/(loss)		8,778	(87,403)
Other (expenses)/income			
Other income	6	2,000	-
Administrative and other expenses	7	(88,934)	(130,825)
Foreign exchange (losses)		(15,340)	(11,587)
Write down of inventory to net realisable value		(22,212)	(125,775)
Unabsorbed fixed costs		(2,577)	(133,954)
Share based payment (expense)/income	10	(5,897)	35,565
Net (loss) before interest and tax		(124,182)	(453,979)
Finance income	11	13,506	34,781
Finance costs	11	(46,056)	(36,580)
Net (loss) before tax		(156,732)	(455,778)
Income taxation credit	12	70,926	117,199
Net (loss) after tax		(85,806)	(338,579)
Attributable to:			
Non-controlling interest	30	(1,214)	(4,804)
Owners of the parent		(84,592)	(333,775)
		(85,806)	(338,579)
Earnings per share (cents per share)			
- basic (loss) per share	13	(15.40)	(66.13)
- diluted (loss) per share	13	(15.40)	(66.13)

The above income statement should be read in conjunction with the notes to the financial statements set out on pages 48–105.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated	
		2010	2009
		ZAR'000	ZAR'000
(Loss) for the period		(85,806)	(338,579)
Other comprehensive income			
Loss on fair value of investment		-	(7,557)
Total comprehensive income for the period, net of tax		(85,806)	(346,136)
Attributable to:			
Non-controlling interests		(1,214)	(4,804)
Owners of the parent		(84,592)	(341,332)
		(85,806)	(346,136)

The above statement of comprehensive income should be read in conjunction with the notes to the financial statements set out on pages 48–105.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

	Contributed equity	Accumulated losses	Share Based payment reserve	Non-distributable reserve	Non-controlling Interest	Total Equity
	ZAR'000	ZAR'000	ZAR'000	ZAR'000	ZAR'000	ZAR'000
At 1 July 2008	2,834,412	(78,036)	6,617	-	8,653	2,771,646
(Loss) for the period	-	(333,775)	-	-	(4,804)	(338,579)
Other comprehensive income	-	64	-	(7,621)	-	(7,557)
Total comprehensive income for the period	-	(333,711)	-	(7,621)	(4,804)	(346,136)
Equity Transactions:						
Cancellation of shares/share buy-back	(20,032)	(1,418)	-	1,577	(2,032)	(21,905)
Dividends paid	-	(76,148)	-	-	-	(76,148)
Share based payment	-	-	1,655	-	-	1,655
At 30 June 2009	2,814,380	(489,313)	8,272	(6,044)	1,817	2,329,112
At 1 July 2009	2,814,380	(489,313)	8,272	(6,044)	1,817	2,329,112
(Loss) for the period	-	(84,592)	-	-	(1,214)	(85,806)
Total comprehensive income for the period	-	(84,592)	-	-	(1,214)	(85,806)
Equity Transactions:						
Shares issued	286,755	-	-	-	-	286,755
Transaction costs on share issue	(12,895)	-	-	-	-	(12,895)
At 30 June 2010	3,088,240	(573,905)	8,272	(6,044)	603	2,517,166

The above statement of changes in equity should be read in conjunction with the notes to the financial statements set out on pages 48–105.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2010

	Note	Consolidated	
		2010 ZAR'000	2009 ZAR'000
ASSETS			
Current assets			
Cash and cash equivalents	15	396,926	340,089
Trade and other receivables	16	230,031	81,059
Prepayments	17	4,792	6,263
Inventories	18	446,241	195,820
Total current assets		1,077,990	623,231
Non-current assets			
Deferred tax asset	12	138,094	66,653
Financial investments	19	13,946	8,550
Property, plant & equipment	20	1,962,028	1,798,151
Intangible assets	21	9,701	10,062
Other non-current assets	22	45,465	18,234
Total non-current assets		2,169,234	1,901,650
Total assets		3,247,224	2,524,881
EQUITY & LIABILITIES			
Current liabilities			
Trade and other payables	23	273,353	105,998
Provisions	24	25,444	12,411
Total current liabilities		298,797	118,409
Non-current liabilities			
Provisions	24	21,554	13,307
Interest bearing loans and borrowings	25	409,707	64,053
Total non-current liabilities		431,261	77,360
Total liabilities		730,058	195,769
Net assets		2,517,166	2,329,112
Shareholder's equity			
Contributed equity	26	3,088,240	2,814,380
Share based payment reserve	27	8,272	8,272
Accumulated losses	28	(573,905)	(489,313)
Non-distributable reserve	29	(6,044)	(6,044)
Parent entity interests		2,516,563	2,327,295
Non-controlling interests	30	603	1,817
Total shareholders' equity		2,517,166	2,329,112

The above statement of financial position should be read in conjunction with the notes to the financial statements set out on pages 48–105.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated	
		2010	2009
		ZAR'000	ZAR'000
Cash flows from operating activities			
Receipts from customers		1,283,722	1,146,317
Payments and advances to suppliers and employees (inclusive of goods and services tax)		(1,505,489)	(1,462,141)
Phantom options exercised and paid		(2,250)	-
Tax paid net of VAT adjustments		(707)	(1,982)
Interest paid		(43,728)	(30,368)
Net cash flows used in operating activities		(268,452)	(348,174)
Cash flows from investing activities			
Payments for property, plant & equipment		(229,346)	(183,881)
Payments for intangible assets		-	(10,837)
Interest received		13,506	34,781
Restricted cash deposits		(31,089)	(1,158)
Net cash flows used in investing activities		(246,929)	(161,095)
Cash flows from financing activities			
Proceeds from issues of shares		286,755	-
Payment for share buyback		-	(22,282)
Proceeds from borrowings		340,435	-
Payment of share issue costs		(12,895)	-
Repayment of borrowings		(26,298)	(12,815)
Equity dividends paid		-	(76,148)
Net cash flows from/(used in) financing activities		587,997	(111,245)
Net increase /(decrease) in cash held		72,616	(620,514)
Cash at the beginning of the financial year		340,089	972,190
Effects of exchange rate changes on cash		(15,779)	(11,587)
Cash and cash equivalents at the end of the year	15	396,926	340,089

The above statements of cash flows should be read in conjunction with the notes to the financial statements set out on pages 48–105.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

RECONCILIATION OF OPERATING (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Loss from ordinary activities before income tax	(156,732)	(455,778)
Adjustments to reconcile profit before tax to net cash flow:		
<u>Non-Cash Items:</u>	123,615	61,495
Amortisation of retention fee	2,249	2,249
Amortisation of intangible asset	361	-
Amortisation of debt establishment costs	4,646	-
Tribal participation loan	4,929	-
Decommissioning asset expense	6,420	(7,363)
Depreciation	65,328	58,787
Foreign exchange loss	15,340	11,587
Interest received/accrued	(11,178)	(34,781)
Inventory net realisable write down	22,212	125,775
Cost of product adjustments	(1,520)	-
Fair value adjustments	(481)	-
Share based payment movements	5,897	(37,393)
Write back of loans	-	(3,386)
Increase/(decrease) in provisions	9,412	(53,980)
<u>Working Capital Adjustments:</u>	(232,378)	48,091
(Increase)/decrease in receivables	(149,874)	381,860
(Increase)/decrease in inventories	(265,468)	(211,843)
(Increase)/decrease in prepayments	(778)	4,870
Increase/(decrease) in payables and accruals	183,742	(126,796)
Taxation paid	(707)	(1,982)
Phantom options paid	(2,250)	-
Net cash flow from operating activities	(268,452)	(348,174)

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT

1. CORPORATE INFORMATION

International Ferro Metals Limited (“the Parent”) is a company limited by shares incorporated in Australia whose shares are publicly traded on the London Stock Exchange, as of the 1st of September 2007. The Company previously traded on the Alternative Investment Market of the London Stock Exchange.

The financial report for the year ended 30 June 2010 was issued in accordance with a resolution of Directors on 27 September 2010.

The principle activities of the company are described on page 9.

2. ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for certain financial instruments which have been measured at fair value.

The financial report is presented in South African Rand and all values are rounded to the nearest thousand Rand (ZAR'000) unless otherwise stated.

Comparative information is reclassified where appropriate to enhance comparability.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

(i). Accounting Standards and Interpretations issued but not yet effective.

International Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2010. These are outlined in the table below.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-5	<p>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project</p> <p>[AASB 5, 8, 101, 107, 117, 118, 136 & 139]</p>	<p>The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following:</p> <p>The amendment to AASB 117 removes the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible vs. property, plant and equipment) needs to be determined.</p> <p>The amendment to AASB 101 stipulates that the terms of a liability that could result, at any time, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.</p> <p>The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.</p> <p>The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity:</p> <ul style="list-style-type: none"> ▶ has primary responsibility for providing the goods or service; ▶ has inventory risk; ▶ has discretion in establishing prices; ▶ bears the credit risk. 	1 January 2010	No material impact	1 July 2010

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-5 (con't)	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	<p>The amendment to AASB 136 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes.</p> <p>The main change to AASB 139 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.</p> <p>The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges.</p>	1 January 2010	No material impact	1 July 2010
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	<p>This Standard makes amendments to Australian Accounting Standard AASB 2 <i>Share-based Payment</i> and supersedes Interpretation 8 <i>Scope of AASB 2</i> and Interpretation 11 <i>AASB 2 – Group and Treasury Share Transactions</i>.</p> <p>The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction.</p> <p>The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.</p>	1 January 2010	No material impact	1 July 2010
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]	The amendment provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met.	1 February 2010	No material impact	1 July 2010

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	<p>The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:</p> <ul style="list-style-type: none"> • two categories for financial assets being amortised cost or fair value • removal of the requirement to separate embedded derivatives in financial assets • strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows • an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition • reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes • changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income 	1 January 2013	No material impact	1 July 2013
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	<p>This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.</p> <p>The amendment to AASB 124 clarifies and simplifies the definition of a related party as well as providing some relief for government-related entities (as defined in the amended standard) to disclose details of all transactions with other government-related entities (as well as with the government itself)</p>	1 January 2011	No material impact	1 July 2011

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.</p> <p>(a) Financial assets are 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. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria.</p> <p>(b) AASB 9 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.</p> <p>(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.</p>	1 January 2013	No material impact	1 July 2013

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 124 (Revised)	Related Party Disclosures (December 2009)	<p>The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:</p> <ul style="list-style-type: none"> (a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other; (b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and (c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. <p>A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.</p>	1 January 2011	No material impact	1 July 2011
AASB 2010-3	<p>Amendments to Australian Accounting Standards arising from the Annual Improvements Project</p> <p>[AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]</p>	<p>Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value.</p> <p>Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses.</p> <p>Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated.</p> <p>Eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments.</p>	1 July 2010	No material impact	1 July 2010

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	<p>Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.</p> <p>Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.</p> <p>Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions</p> <p>Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.</p>	1 January 2011	No material impact	1 July 2011

* designates the beginning of the applicable annual reporting period unless otherwise stated

** only applicable to not-for-profit / public sector entities

*** pronouncements that have been issued by the IASB and IFRIC but have not yet been issued by the AASB. Entities must disclose the impact of these pronouncements in order to make the statement of compliance with IFRS under AASB 101.14. For-profit public sector entities may not be required to disclose the impact of IASB and IFRIC pronouncements if they have applied an Australian Accounting Standard, which is inconsistent with IFRS requirements under AASB 101.Aus14.2. Not-for-profit entities need not comply with AASB 101.14 and are not required to disclose the impact of IASB and IFRIC pronouncements under AASB 101.Aus14.3.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

(b) Statement of compliance (continued)

- (ii). Changes in accounting policy and disclosure.

The accounting policies adopted are consistent with those of the previous financial year except as follows:

AASB 3 Business Combinations (revised 2008) and AASB 127 Consolidated and Separate Financial Statements (revised 2008)

AASB3 (revised 2008) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interests (previously “minority interests”), the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results.

AASB 127 (revised 2008) requires that a change in the ownership interest of a subsidiary (without a change in control) is to be accounted for as a transaction with owners in their capacity as owners. Therefore such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss in the statement of comprehensive income. Furthermore the revised Standard changes the accounting for losses incurred by a partially owned subsidiary as well as the loss of control of a subsidiary. Non-controlling interests are allocated their share of net profit after tax in the income statement and are presented within equity in the statement of financial position, separately from the equity of the owners of the parent. Losses are attributed to the non-controlling interest even if that results in a deficit balance. The changes in AASB 3 (revised 2008) and AASB 127 (revised 2008) will affect future acquisitions, changes in, and loss of control of, subsidiaries and transactions with non-controlling interests.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

AASB 7 Financial Instruments: Disclosures

The amended Standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to all financial instruments recognised and measured at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 33. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 33.

AASB 8 Operating Segments

AASB 8 replaced AASB 114 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in note 4.

AASB 101 Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two linked statements.

AASB 123 Borrowing Costs

The revised AASB 123 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended AASB 123, the Group has adopted the Standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 January 2009. The Group did not capitalise any borrowing costs in the current year.

NOTES TO THE FINANCIAL REPORT (CONTINUED)

(c) Basis of consolidation

The Consolidated financial statements incorporate the assets and liabilities of all entities controlled by International Ferro Metals Limited at the end of the reporting period. 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.

(d) Business combinations and goodwill

Business combinations from 1 July 2009

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.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 39 in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at the cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 30 June 2009

On the acquisition of a subsidiary, the purchase method of accounting is applied whereby the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition. Those mineral reserves and resources that are able to be reliably valued are recognized in the assessment of fair value on acquisition.

The cost of the business combination is the aggregate of: (a) the fair values at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer in exchange for control of the acquiree; and (b) and cost directly attributable to the business combination.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable net assets.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

(d) Business combinations and goodwill (continued)

If the fair value attributable to the Group's share of the identifiable net assets exceeds the fair value of the consideration, the Group reassessed whether it has correctly identified and measured the assets acquired and liabilities assumed and recognized any additional assets or liabilities that are identified in that review. If the excess remains after reassessment, the Group recognizes the resulting gain in the income statement on the acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised and is tested for impairment annually. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

(e) Revenue recognition

Revenue from the sale of goods is recognised when significant risks and rewards of the saleable product has transferred to the customer. Risks and rewards are considered passed to the customer upon delivery to the customer's control. This generally occurs when the product is physically transferred into a vessel, train, truck or other delivery mechanism.

Revenue from inventory sales is measured at the fair value of consideration received/receivable. Revenue is stated after deducting sales taxes, duties and levies.

For certain ferrochrome sales the price is determined on a provisional basis at the date of sale (free on board). Adjustments to the sale price may occur based on movements in the metal price up to the date of final pricing. Final pricing is based on contractual negotiations and is referred to the published ferrochrome price at the date of consumption by the relevant customers, adjusted for negotiated discounts. The period between provisional invoicing and final pricing is typically between 1 and 2 months. Revenue on provisionally priced sales is initially recorded at the estimated fair value of the consideration receivable. The revenue adjustment mechanism embedded within provisionally priced sales arrangements has the characteristics of a commodity derivative. Accordingly the fair value of the final sales price adjustment is re-estimated continuously and changes in fair value is recognised as an adjustment to revenue in the income statement and trade receivables in the balance sheet. In all cases fair value is determined with reference to latest available published ferrochrome prices.

Interest revenue is brought to account on an accrual basis using the effective interest rate method, 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.

Dividend revenue is recognised when the Group's right to receive payment is established.

(f) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

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.

(g) 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 debtors 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.

(h) Inventories

Inventories including raw materials, work in progress, consumables and finished goods are valued at the lower of cost and net realisable value.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

(h) Inventories (continued)

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials – purchase cost assigned on a weighted average cost basis. The cost of purchase comprises the purchase price including import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities) transport, handling and other costs directly attributable to the acquisition of raw materials. Volume discounts and rebates are included in determining the cost of purchase.

Consumables and maintenance spares are valued at purchase cost on a first-in, first out basis.

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity. Costs are assigned on the basis of weighted average costs. Fixed cost attributable to non-operating units is expensed in the income statement.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale, including sales commissions.

(i) 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 balance sheet 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: between 3.33% and 5%
- Plant & equipment: between 3.33% and 33.33%
- Motor vehicles: between 16.67% and 20%
- Furniture & fittings: 16.67%
- Computer equipment: 33.34%

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.

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.

Mineral rights that are being depleted are amortised over the estimated remaining life of mine, using the unit of production method based on proven and probable ore reserves. Land is not depreciated.

Currently the maximum life applied to components which are expected to last for the life of the plant is 27 years and the maximum residual value which has been applied to any component is 50% of the cost value.

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.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

(j) 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 balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet 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 balance sheet 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 balance sheet 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 balance sheet 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.

(k) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) or value added tax (VAT), except:

- where the amount of GST/VAT 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/VAT.

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

(l) 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.

(m) 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 derecognised, as well as through the amortisation process.

NOTES TO THE FINANCIAL REPORT (CONTINUED)

(n) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

(o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of the time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds specifically relating to the project.

The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 July 2009. The Group continues to expense borrowing costs relating to construction projects that commenced prior to 1 July 2009.

(p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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.

Environmental Rehabilitation provisions:

The estimated cost of rehabilitation, comprising liabilities for decommissioning and restoration is based on current legal requirements and existing technology and reassessed annually by management. The costs of the provisions do not take into account the potential proceeds from the sale of the assets at the end of their useful lives.

Decommissioning:

The discounted value of the estimated obligation to decommission, being the cost to dismantle all structures and rehabilitate the land that arose from establishing a mine or plant, is included in long term provisions. The unwinding of the obligation is included in the income statement under finance costs. The initial related decommissioning asset is recognised as part of property, plant and equipment.

Restoration:

The discounted value of the estimated obligation of restoration, being the cost to correct damages from ongoing operations, is included in long term provisions. Management reviews the estimations on an annual basis and charges any movements directly in the income statement.

Environmental rehabilitation trust funds (for funding rehabilitation):

Monthly payments are made to the trust in accordance with a financial policy agreement. The investment in the trusts is carried as inter-company investments in each company. The trusts are fully consolidated as IFM is the only contributor to these trusts and exercise full control via the board of trustees.

The estimated costs of rehabilitating a mine are generally included in the capital cost of the mine. Changes in estimates of the liability are dealt with on a prospective basis.

NOTES TO THE FINANCIAL REPORT (CONTINUED)

(q) Share-based payment transactions

(i) Equity settled transactions:

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.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of International Ferro Metals Limited ('market conditions').

The cost of equity-settled transactions is recognised, 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 balance sheet 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.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

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. 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.

(ii) Cash settled transactions:

The Group also provides benefits to employees in the form of cash-settled share-based payments, whereby employees render services in exchange for cash, the amounts of which are determined by reference to movements in the price of the shares of International Ferro Metals Limited.

The ultimate cost of these cash-settled transactions will be equal to the actual cash paid to the employees, which will be the fair value at settlement date.

The cumulative cost recognised until settlement is a liability and the periodic determination of this liability is as follows:

- (i) at each reporting date between grant and settlement, the fair value of the award is determined;
- (ii) during the vesting period, the liability recognised at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period;
- (iii) from the end of the vesting period until settlement, the liability recognised is the full fair value of the liability at the reporting date; and
- (iv) all changes in the liability are recognised in profit or loss for the period.

The fair value of the liability is determined, initially and at each reporting date until it is settled. For the current financial year an option pricing model was applied, taking into account the terms and conditions on which the award was granted, and the extent to which employees have rendered service to date.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

(r) 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.

Diluted earnings per share is calculated as net profit attributable to members of the parent, 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;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(s) Exploration and evaluation costs

Expenditure on exploration and evaluation is accounted for in accordance with the 'area of interest' method. Exploration and evaluation expenditure is capitalised provided the rights to tenure of the area of interest is current and either:

- the exploration and evaluation activities are expected to be recouped through successful development and exploitation of the area of interest or,
- alternatively, by its sale; or exploration and evaluation activities in the area of interest have not at the reporting date reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or relating to, the area of interest are continuing.

When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated then any capitalised exploration and evaluation expenditure is reclassified as capitalised mine development. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

(t) Foreign currency transactions

The functional currency of International Ferro Metals Limited and its subsidiaries is the South African Rand ("ZAR") as this is the currency in which Group primarily generates and expends cash. The directors have chosen ZAR, being the group's functional currency, as being the most appropriate currency in which to present the financial statements.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences in the consolidated financial report are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(u) Feasibility expenditure

Costs incurred relating to a feasibility study are expensed as incurred until the period in which management considers that a bankable feasibility study is complete and the Company decides to continue with the project. Following this time, costs directly related to the feasibility study are deferred as a non-current asset and will be amortised over the life of the plant or mine on a life of plant or units of production basis.

(v) Financial assets – initial recognition and subsequent measurement

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, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

NOTES TO THE FINANCIAL REPORT (CONTINUED)

(v) Financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(i). Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

(ii). Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets 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 do not meet the hedge accounting criteria as defined by AASB 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the balance sheet as fair value with gains or losses recognized in the income statement.

The Group has not designated any financial assets as at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

(iii). Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss recorded is recognized in the income statement, or determined to be impaired, at which time the cumulative loss recorded is recognized in the income statement.

Derecognition 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 derecognised 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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognized to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO THE FINANCIAL REPORT (CONTINUED)

(v) Financial assets (continued)

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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 has 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 future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets 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.

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.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset 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. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

NOTES TO THE FINANCIAL REPORT (CONTINUED)

(w) Financial liabilities

Initial recognition

Financial liabilities within the scope of IAS 39 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 - refer note 2(p) 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 derecognised as well as through the effective interest rate method amortisation process.

Derecognition

A financial liability is derecognised 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 derecognition 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.

(x) Offsetting of financial instrument

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

NOTES TO THE FINANCIAL REPORT (CONTINUED)

(y) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments that are not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 33.

(z) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(aa) Hedge accounting and derivative financial instruments

Initial recognition and subsequent measurement

The Group may use derivative financial instruments such as forward currency contracts to hedge its foreign market risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge are taken directly to the income statement.

The fair value of forward currency contracts is the difference between the forward exchange rate and the contract rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognized in the income statement. The change in the fair value of the hedged item attributed to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognized in the income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedge item is derecognized, the unamortized fair value is recognized immediately in the income statement.

NOTES TO THE FINANCIAL REPORT (CONTINUED)

(aa) Hedge accounting and derivative financial instruments (continued)

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the income statement.

Cash flow hedges

The effective portion of the gain or loss in the hedging instrument is recognized directly in equity, while any ineffective portion is recognized immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

Hedged of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in equity while any gains or losses relating to the ineffective portion are recognized in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in equity is transferred to the income statement.

Current versus non-current classification

Derivative instruments that are not a designated and effective hedging instrument are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting), for a period beyond 12 months after the balance sheet date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

(bb) Deferred stripping costs

Stripping costs incurred in the development of a mine before production commences are capitalized as part of the cost of constructing the mine and subsequently amortised over the life of the mine on a units of production basis.

Where a mine operates several open pits that are regarded as separate operations for the purpose of mine planning, stripping costs are accounted for separately by reference to the ore from each separate pit. If, however, the pits are highly integrated for the purpose of the mine planning, the second and subsequent pits are regarded as extensions of the first pit in accounting for stripping costs.

In such cases, the initial stripping (i.e., overburden and other waste removal) of the second and subsequent pits is considered to be production phase stripping relating to the combined operation.

Stripping costs incurred subsequently during the production stage of its operation are treated as part of production cost and carried in the value of the mined ore.

Deferred stripping costs are included as part of 'Mine development'. These form part of the total investment in the relevant cash generating units, which are reviewed for impairment if events or changes of circumstances indicate that the carrying value may not be recoverable.

(cc) Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deduced from equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognized in other capital reserves.

NOTES TO THE FINANCIAL REPORT (CONTINUED)

(dd) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(ee) Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resource to complete the asset;
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset commences when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in the cost of sales. During the period of development, the asset is tested for impairment annually.

(ff) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

(ff) Impairment of non-financial assets (continued)

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually (as at 30 June) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 30 June either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

NOTES TO THE FINANCIAL REPORT (CONTINUED)

3. Significant accounting judgements, estimates and assumptions

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(i) *Significant accounting judgments*

(a) *Determination of mineral resources and ore reserves*

The determination of reserves impacts the accounting for asset carrying values, depreciation and amortisation rates, deferred stripping costs and provisions for decommissioning and restoration. International Ferro Metals Limited estimates its mineral resources and ore reserves using the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 (the 'JORC code') as a minimum standard. The information on mineral resources and ore reserves were prepared by or under the supervision of Competent Persons as defined in the JORC code. The amounts presented are based on the mineral resources and ore reserves determined under the JORC code.

There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

(b) *Impairment of capitalised exploration and evaluation expenditure*

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made.

(c) *Impairment of capitalised mine development expenditure*

The future recoverability of capitalised mine development expenditure is dependent on a number of factors, including the level of proved, probable and inferred mineral resources, future technological changes that could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised mine development expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

(d) *Recoverability of potential deferred income tax assets*

The Group recognises deferred income tax assets in respect of tax losses to the extent that it is probable that the future utilisation of these losses is considered probable. Assessing the future utilisation of these losses requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted profits from operations and the application of existing tax laws. Future changes in profits resulting in estimated taxable income could impact on recognised or unrecognised deferred tax assets or liabilities.

NOTES TO THE FINANCIAL REPORT (CONTINUED)

3. Significant accounting judgements, estimates and assumptions (continued)

(ii) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

(e) Impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable.

Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

In determining value in use, future cash flows are based on:

Estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;

- future production levels;
- future exchange rates;
- future commodity prices; and
- future cash costs of production and capital expenditure.

Variations to the expected future cash flows, and the timing thereof, could result in significant changes to any impairment losses recognised, if any, which could in turn impact future financial results.

(f) Provisions for decommissioning and restoration costs

Decommissioning and restoration costs are a normal consequence of mining, and the majority of this expenditure is incurred at the end of a mine's life. In determining an appropriate level of provision consideration is given to the expected future costs to be incurred, the timing of these expected future costs (largely dependent on the life of the mine), and the estimated future level of inflation.

The ultimate cost of decommissioning and restoration is uncertain and costs can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing of expenditure can also change, for example in response to changes in reserves or to production rates.

Changes to any of the estimates could result in significant changes to the level of provisioning required, which would in turn impact future financial results.

(g) 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(q) and note 31.

(h) Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

(i) Production start date

The Group assesses the stage of each mine development project to determine when a mine moves into the production stage. The criteria used to assess the start date of a mine are determined based on the unique nature of each mine development project. The group considers various relevant criteria to assess when the mine is substantially complete, ready for its intended use and moves into the production phase.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

3. Significant accounting judgements, estimates and assumptions (continued)

(i) *Production start date(continued)*

Some of the criteria includes, but are not limited to the following:

- The level of capital expenditure compared to construction cost estimates;
- Completion of a reasonable period of testing of the mine plant and equipment;
- Ability to produce metal in saleable form, and
- Ability to sustain ongoing production of metal.

When a mine development project moves into the production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for capital costs related to mining asset additions or improvements, underground mine development or mineable reserve development. It is also at this point that depreciation / amortization commences.

(j) *Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

4. SEGMENT INFORMATION

Identification of reportable segments.

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

The group operates predominately in one business segment, being the mining and processing of chromite in South Africa and sale of ferrochrome. There are no material differences between the financial information presented to the Chief Operating Decision Maker and the financial information presented in this report.

Sales revenue by geographic location

Revenue obtained from external customers is attributed to individual countries based on the location of the customer.

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
China	269,353	471,702
Europe	784,710	138,810
South Africa	113,108	36,950
South Korea	49,822	94,656
Taiwan	35,018	18,568
United States of America	181,584	20,888
Total External Revenue	1,433,595	781,574

Major customers

The group received 74% of its external revenue from its China and European customers (2009: 78% from China and European customers). During 2010 the group received 67% (2009:20%) of its external revenue from CMC Cometals and 25% (2009:75%) from Jisco.

There are no additional customers which account for more than 10% of the group's external revenues.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

5. SALES REVENUE

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Sales Revenue		
- Ferrochrome sales	1,385,528	756,684
- Fair value adjustments (a)	34,831	-
- Other sales (b)	13,236	24,890
	1,433,595	781,574

(a) Fair value adjustments represent re-valuations performed on ferrochrome sales contracts for which the price is linked to future fluctuations in the published ferrochrome price until the day of consumption by the end customer. (also refer to note 3(e))

(b) Other sales relate to chrome ore and silicon carbide sales.

6. OTHER INCOME

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Other income (a)	2,000	-
	2,000	-

(a) Other income relates to an exclusivity agreement for the construction of a Platinum Group Metals recovery plant.

7. ADMINISTRATIVE AND OTHER EXPENSES

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Accounting fees	175	1,990
Auditors remuneration	2,187	4,064
Consulting fees	16,690	8,811
Depreciation not in cost of goods sold	848	782
Research and development cost	1,830	-
Impairment of property, plant and equipment	-	13,493
Legal fees	1,513	7,424
Remuneration of Key Management Personnel (refer note 8)	22,057	43,949
Staff costs (refer note 9)	17,802	21,896
Fair value adjustments on financial assets held for sale	(481)	-
Other administrative expenses	26,313	28,416
	88,934	130,825

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

8. REMUNERATION OF KEY MANAGEMENT PERSONNEL

(a) Details of Key Management Personnel

Please refer to page 23 for details of Key Management Personnel.

(b) Remuneration of Key Management Personnel

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Basic salary and fees	17,975	20,225
Incentive payments	295	-
Other fees *	2,928	3,301
Superannuation **	22	598
Termination payments	837	19,743
Non-monetary benefits	-	82
	22,057	43,949
Equity settled option expense	-	1,618
Phantom option expense	2,106	3,921
Phantom options cancelled	-	(23,851)
Total remuneration	24,163	25,637

* Other fees represent costs for any additional work undertaken for the Company and retention fees paid.

** Superannuation represents payments made in respect of a defined contribution pension scheme.

(c) Option holdings of key management personnel (consolidated)

30 June 2010

No share options were issued during the year ended 30 June 2010.

30 June 2009

Mr Kovarsky was issued one million share options on 1 February 2008. These options were cancelled on 30 December 2008. No other share options were granted during the year.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

8. REMUNERATION OF KEY MANAGEMENT PERSONNEL (continued)

The following table details phantom options issued during the year ended 30 June 2010.

30 June 2010	Balance at beginning of period 1 July 2009	Phantom options granted	Phantom options exercised	Balance end of period 30 June 2010	As at 30 June 2010	
					Exercisable	Not exercisable
Non-executive directors						
<i>Anthony Grey</i>	1,550,000	-	-	1,550,000	516,667	1,033,333
<i>Stephen Turner</i>	1,550,000	-	-	1,550,000	516,667	1,033,333
<i>Terence Willsteed</i>	-	-	-	-	-	-
<i>Ian Watson</i>	-	-	-	-	-	-
<i>Stephen Oke</i>	-	-	-	-	-	-
<i>Tian Xia</i>	-	-	-	-	-	-
<i>John Ballard</i>	-	-	-	-	-	-
Executive directors						
<i>David Kovarsky</i>	1,000,000	-	-	1,000,000	333,333	666,667
<i>Xiaoping Yang</i>	446,250	-	-	446,250	148,750	297,500
<i>Jannie Muller</i>	190,000	60,000	-	250,000	63,333	186,667
Other Key Management Personnel						
<i>Wimpie van Wyk</i>	-	250,000	-	250,000	-	250,000
<i>Michael Lillja</i>	-	250,000	-	250,000	-	250,000
<i>Maarten Nienaber</i>	-	250,000	-	250,000	-	250,000
Total	4,736,250	810,000	-	5,546,250	1,578,750	3,967,500

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

8. REMUNERATION OF KEY MANAGEMENT PERSONNEL (continued)

(c) Option holdings of key management personnel (consolidated) (continued)

The following table details phantom options issued during the year end 30 June 2009.

30 June 2009	Balance at beginning of period 1 July 2008	Phantom options granted	Phantom options exercised	Phantom options cancelled (note 31)	Balance end of period 30 June 2009	As at 30 June 2009	
						Exercisable	Not exercisable
Non-executive directors							
<i>Anthony Grey</i>	825,833	1,550,000	-	(825,833)	1,550,000	-	1,550,000
<i>Stephen Turner</i>	825,833	1,550,000	-	(825,833)	1,550,000	-	1,550,000
<i>Terence Willsteed</i>	123,125	-	-	(123,125)	-	-	-
<i>Ian Watson</i>	289,792	-	-	(289,792)	-	-	-
<i>Stephen Oke</i>	123,125	-	-	(123,125)	-	-	-
<i>Tian Xia</i>	123,125	-	-	(123,125)	-	-	-
Executive directors							
<i>David Kovarsky</i>	-	1,000,000	-	-	1,000,000	-	1,000,000
<i>Xiaoping Yang</i>	446,250	446,250	-	(446,250)	446,250	-	446,250
<i>Ronald Barnard</i>	792,500	-	-	(792,500)	-	-	-
Other Key Management Personnel							
<i>Dion Cohen</i>	498,250	998,250	-	(498,250)	998,250	-	998,250
<i>Jannie Muller</i>	122,000	190,000	-	(122,000)	190,000	-	190,000
<i>Hannes Van Dyk</i>	-	250,000	-	-	250,000	-	250,000
<i>Hannes Visser</i>	-	250,000	-	-	250,000	-	250,000
Total	4,169,833	6,234,500	-	(4,169,833)	6,234,500	-	6,234,500

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

8. REMUNERATION OF KEY MANAGEMENT PERSONNEL (continued)

(d) Shareholdings holdings of key management personnel (consolidated)

30 June 2010	Balance at 1 July 2009	Granted as remuneration	On exercise of options	Shares sold	Shares Purchased	Balance end of period 30 June 2010
	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares
Non-executive directors						
<i>Anthony Grey*</i>	1,266,667	-	-	-	-	1,266,667
<i>Stephen Turner**</i>	6,916,667	-	-	-	-	6,916,667
<i>Terence Willstead***</i>	1,000,000	-	-	-	-	1,000,000
<i>Ian Watson</i>	333,334	-	-	-	-	333,334
<i>Stephen Oke</i>	50,000	-	-	-	-	50,000
<i>Tian Xia</i>	166,667	-	-	-	-	166,667
<i>John Ballard</i>	-	-	-	-	-	-
Executive directors						
<i>David Kovarsky</i>	-	-	-	-	-	-
<i>Xiaoping Yang</i>	166,667	-	-	-	-	166,667
<i>Jannie Muller</i>	-	-	-	-	-	-
Other Key Management Personnel						
<i>Wimpie van Wyk</i>	-	-	-	-	-	-
<i>Michael Lillja</i>	-	-	-	-	-	-
<i>Maarten Nienaber</i>	-	-	-	-	-	-
Total	9,900,002	-	-	-	-	9,900,002

* *Mr Grey's shareholding is held by Dalvin Pty Limited, a company of which Anthony Grey is a beneficial owner.*

** *Mr Turner's shareholding are held as follows: 4,141,667 ordinary shares by Kin Yip International Limited and 2,775,000 Ordinary shares by Guarantee Group Limited, both being companies of which Stephen Turner is a beneficial shareholder. Mr Turner only has a part interest in these shares.*

*** *Terence Willstead's shareholding is held by Patemat Pty Limited as trustee for T.V. Willstead & Associates Pty Limited Superannuation Fund through the association with Mineral Associated SA.*

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

8. REMUNERATION OF KEY MANAGEMENT PERSONNEL (continued)

(d) Shareholdings of key management personnel (consolidated) (continued)

30 June 2009	Balance at 1 July 2008	Granted as remuneration	On exercise of options	Shares sold	Shares Purchased	Balance end of period 30 June 2009
	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares
Non-executive directors						
<i>Anthony Grey*</i>	1,266,667	-	-	-	-	1,266,667
<i>Stephen Turner**</i>	6,916,667	-	-	-	-	6,916,667
<i>Terence Willstead***</i>	166,667	-	-	-	833,333	1,000,000
<i>Ian Watson</i>	333,334	-	-	-	-	333,334
<i>Stephen Oke</i>	50,000	-	-	-	-	50,000
<i>Tian Xia</i>	166,667	-	-	-	-	166,667
Executive directors						
<i>David Kovarsky</i>	-	-	-	-	-	-
<i>Xiaoping Yang</i>	166,667	-	-	-	-	166,667
<i>Ronald Barnard¹</i>	333,334	-	-	(333,334)	-	-
Other Key Management Personnel						
<i>Dion Cohen²</i>	-	-	-	-	-	-
<i>Jannie Muller</i>	-	-	-	-	-	-
<i>Hannes Van Dyk</i>	-	-	-	-	-	-
<i>Hannes Visser</i>	-	-	-	-	-	-
Total	9,400,003	-	-	(333,334)	833,333	9,900,002

¹ Mr Barnard resigned on 17 July 2008.

² Mr Cohen resigned on 23 July 2009.

* Mr Grey's shareholding is held by Dalvin Pty Limited, a company of which Anthony Grey is a beneficial owner.

** Mr Turner's shareholding are held as follows: 4,141,667 ordinary shares by Kin Yip International Limited and 2,775,000 Ordinary shares by Guarantee Group Limited,, both being companies of which Stephen Turner is a beneficial shareholder. Mr Turner only has a part interest in these shares.

***Terence Willstead's shareholding is held by Patermat Pty Limited as trustee for T.V. Willstead & Associates Pty Limited Superannuation Fund through the association with Mineral Associated SA.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

9. STAFF COSTS (EXCLUDING REMUNERATION OF KEY MANAGEMENT PERSONNEL)

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Basic salary and fees	148,135	99,504
Superannuation *	115	90
Termination costs	6,133	18,065
Other costs	14	27
	154,397	117,686
Less amounts included in inventories/cost of goods sold	(136,595)	(95,790)
	17,802	21,896

* Superannuation represents payments made in respect of a defined contribution pension scheme.

10. SHARE BASED PAYMENT (EXPENSE)/INCOME

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Equity settled option (expense)	-	(1,618)
Phantom option (expense)/income	(5,897)	37,183
	(5,897)	35,565

Refer to note 31 for further details of the option plan.

11. FINANCING INCOME AND COSTS

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Interest income	13,506	34,781
Interest expense, comprising:	(46,056)	(36,580)
Finance cost	(5,653)	(6,212)
- Amortisation of debt establishment costs	(4,646)	-
- Unwinding of discount on rehabilitation provision	(1,007)	(6,212)
Interest charges	(40,403)	(30,368)
- Interest on debt financing	(18,326)	(20,219)
- Interest on sales financing	(14,052)	-
- Interest on finance leases	(8,019)	(9,888)
- Interest paid – other	(6)	(261)
Net finance (costs)	(32,550)	(1,799)

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

12. INCOME TAX

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Income tax expense		
Current Income tax charge:	515	56
Adjustment in respect of income tax of previous year	(16,817)	22,448
Deferred income tax relating to origination and reversal of temporary differences	(54,624)	(139,703)
Income tax (credit) recorded in income statement	(70,926)	(117,199)
Loss from ordinary activities before income tax expense	(156,732)	(455,778)
At parent entity statutory tax rate of 30%:	(47,020)	(136,734)
Overseas tax rate differential	1,978	10,276
Income not taxable	(26,087)	(25,909)
Expenses not deductible for tax purposes	2,817	8,529
Deferred tax assets not recognised	14,203	4,191
Adjustment in respect of current income tax of previous year	(16,817)	22,448
Aggregate income tax (credit)	(70,926)	(117,199)
Deferred income tax liability		
Property plant and equipment, including unredeemed capital expenditure	70,785	104,362
Debtors and prepayments	1,338	(304)
Other payables	1,007	1,488
Total deferred tax liability	73,130	105,546
Deferred income tax asset		
Provisions	(3,557)	(2,751)
Finance lease payments	(18,682)	(25,119)
Share option charges	(942)	(687)
Income received in advance	-	(158)
Inventory	-	(12,644)
Loss available for offset against future income	(182,529)	(127,832)
Rehabilitation provisions, claimable in future	(5,514)	(3,008)
Total deferred tax (asset)	(211,224)	(172,199)
Net deferred tax (asset)	(138,094)	(66,653)
Calculated taxation losses		
The Group has recognised a net deferred tax asset of ZAR138 million as it is probable this will be fully utilised in future, as the Group expects to generate future taxable profits.		
Unredeemed mining capital expenditure		
Unredeemed mining capital expenditure available for offset against future mining taxable income	1,522,521	1,266,056

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

13. EARNINGS PER SHARE

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Basic loss per share (cents per share)	(15.40)	(66.13)
Diluted loss per share (cents per share)	(15.40)	(66.13)
Earnings used in calculating basic earnings per share (ZAR'000)	(84,592)	(333,775)
Earnings used in calculating diluted earnings per share (ZAR '000)	(84,592)	(333,775)
Weighted average number of ordinary shares on issue in calculation of basic and diluted earnings per share	549,442,047	504,757,375

14. DIVIDENDS PAID AND PROPOSED

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Dividends declared and paid during the year on ordinary shares: Final unfranked dividend for the financial year ended 30 June 2008: 1 pence, paid 3 November 2008	-	76,148

Dividends declared and paid during the year on ordinary shares:
Final unfranked dividend for the financial year ended 30 June 2008: 1 pence, paid 3 November 2008

The Board of Directors resolved not to declare a dividend for the year ended 30 June 2010.

15. CASH AND CASH EQUIVALENTS

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Cash at bank and on hand	138,726	36,186
Short-term deposits	258,200	303,903
	396,926	340,089

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

16. RECEIVABLES

Trade and other receivables

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Trade debtors (a)	203,874	62,678
Less: Advance debtor payments	-	(566)
Less: Effect of discount	-	(997)
Outstanding tax refunds (b)	25,334	18,319
Other debtors	823	1,625
	230,031	81,059

(a) Trade debtors relate to the sale of ferrochrome and chrome ore. Payment terms are thirty days from date of final invoice.

(b) Tax refunds relate to the relevant Goods and Services Tax and Value Added Tax refunds owing in Australia and South Africa.

Details of the terms and conditions of receivables are discussed in detail under note 33.

The carrying value of trade and other receivables is assumed to approximate the fair value due to the short term nature of the trade and other receivables.

17. PREPAYMENTS

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Prepaid retention fee	3,562	5,811
Prepaid shipping costs	-	452
Prepaid stewardship costs	300	-
Prepaid other	930	-
	4,792	6,263

18. INVENTORIES

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Consumable stores at net realisable value (2009: net realisable value)	21,043	17,019
Ore stock at net realisable value (2009: net realisable value)	143,955	112,800
Raw materials at net realisable value (2009: at net realisable value)	146,644	23,113
Finished goods at net realisable value (2009: at net realisable value)	134,599	42,888
	446,241	195,820

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

19. FINANCIAL ASSETS

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Investment in rehabilitation trust (a)	13,946	8,550
	13,946	8,550

(a) The investment constitutes deposits at financial institutions in favour of a rehabilitation trust. These funds can only be applied to relevant rehabilitation expenditure.

20. PROPERTY, PLANT & EQUIPMENT

Consolidated	Cost	Accumulated depreciation	Net book value
2010	ZAR'000	ZAR'000	ZAR'000
Mineral rights and reserves (a)	157,287	(5,463)	151,824
Land and buildings	34,263	(2,785)	31,478
Decommissioning asset	3,249	(211)	3,038
Plant & equipment	1,334,775	(147,714)	1,187,061
Leased plant & equipment	92,535	(10,664)	81,871
Mine development	237,460	(19,826)	217,634
Computer equipment	8,351	(4,880)	3,471
Leased computer equipment	1,651	(1,651)	-
Furniture & fittings	4,782	(3,058)	1,724
Exploration costs	15,785	-	15,785
Capital work in progress (b)	259,443	-	259,443
Vehicles	9,383	(4,213)	5,170
Leased vehicles	7,347	(3,818)	3,529
Total	2,166,311	(204,283)	1,962,028

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

20. PROPERTY, PLANT & EQUIPMENT (continued)

Consolidated	Carrying value at beginning of year	Impairments(c)	Adjustments (d)	Additions	Depreciation	Carrying value at end of year
2010	ZAR'000	ZAR'000	ZAR'000	ZAR'000	ZAR'000	ZAR'000
Mineral rights and reserves (a)	149,121	-	-	-	2,703	151,824
Land and buildings	31,530	-	749	-	(801)	31,478
Decommissioning asset	1,620	-	1,524	-	(106)	3,038
Plant & equipment	1,196,598	-	41,602	-	(51,139)	1,187,061
Leased plant & equipment)	83,000	-	-	3,980	(5,109)	81,871
Mine development	150,205	-	74,254	-	(6,825)	217,634
Computer equipment	4,159	-	1,155	-	(1,843)	3,471
Leased computer equipment	652	-	-	-	(652)	-
Furniture & fittings	1,528	-	1,004	-	(808)	1,724
Exploration costs	15,802	-	(17)	-	-	15,785
Capital work in progress (b)	152,403	-	(121,007)	228,047	-	259,443
Vehicles	6,097	-	736	-	(1,663)	5,170
Leased vehicles	5,436	-	-	-	(1,907)	3,529
Total	1,798,151	-	-	232,027	(68,150)	1,962,028

Consolidated	Cost	Accumulated depreciation	Net book value
2009	ZAR'000	ZAR'000	ZAR'000
Mineral rights and reserves (a)	157,287	(8,166)	149,121
Land and buildings	33,198	(1,668)	31,530
Decommissioning asset	2,040	(420)	1,620
Plant & equipment	1,293,173	(96,575)	1,196,598
Leased plant & equipment	88,555	(5,555)	83,000
Mine development	163,206	(13,001)	150,205
Computer equipment	7,212	(3,053)	4,159
Leased computer equipment	1,651	(999)	652
Furniture & fittings	3,778	(2,250)	1,528
Exploration costs	15,802	-	15,802
Capital work in progress (b)	152,403	-	152,403
Vehicles	8,648	(2,551)	6,097
Leased vehicles	7,347	(1,911)	5,436
Total	1,934,300	(136,149)	1,798,151

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

20. PROPERTY, PLANT & EQUIPMENT (continued)

Consolidated	Carrying value at beginning of year	Impairments (c)	Adjustments(d)	Additions	Depreciation	Carrying value at end of year
2009	ZAR'000	ZAR'000	ZAR'000	ZAR'000	ZAR'000	ZAR'000
Mineral rights and reserves (a)	151,492	-	63	-	(2,434)	149,121
Land and buildings	28,794	-	3,490	-	(754)	31,530
Decommissioning asset	5,631	-	(3,813)	-	(198)	1,620
Plant & equipment	1,177,789	(10,182)	69,308	-	(40,317)	1,196,598
Leased plant & equipment	85,256	-	67	-	(2,323)	83,000
Mine development	132,870	-	22,802	618	(6,085)	150,205
Computer equipment	2,262	-	-	3,368	(1,471)	4,159
Leased computer equipment	1,176	(23)	-	-	(501)	652
Furniture & fittings	1,643	-	-	856	(971)	1,528
Exploration costs	12,856	-	-	2,946	-	15,802
Capital work in progress (b)	60,522	(3,288)	(91,917)	187,086	-	152,403
Vehicles	4,638	-	511	2,500	(1,552)	6,097
Leased vehicles	7,352	-	(511)	-	(1,405)	5,436
Total	1,672,281	(13,493)	-	197,374	(58,011)	1,798,151

(a) Mineral rights and reserves of ZAR61million relating to the Sky Chrome deposit is held in Purity Metals Holdings Limited ("Purity"), a wholly owned subsidiary of the Group. IFM acquired the shares in Purity for US\$9 million on 16 December 2005. For accounting purposes Purity is treated as a subsidiary of the Company. Purity owns 80% of the Sky Chrome project, a ferrochrome resource located adjacent to the Buffelsfontein plant. The purchase price has been allocated to the value of the Sky Chrome Mineral Resource. There has been no impact on the income statement subsequent to acquisition. The positive adjustment in depreciation in the current year resulted from a change in the Mineral Resource and Reserve Statement.

On 30 April 2009, Sky Chrome submitted an application to the Department of Minerals and Resources ("DMR") for a new order mining license. Sky Chrome's prospecting right expired in July 2009. The new order mining license is expected to be approved between 6 and 9 months and no mining is allowed in the meantime. Management believe that the new order mining license will be approved.

(b) Capital work in progress relates to capital costs incurred for the expansion of the Group's associated infrastructure.

(c) Impairments relate to plant & equipment written off as part of the plant upgrade programme.

(d) The adjustment to plant & equipment relate to reallocation of capital work in progress to the various assets.

Property, mineral rights, plant and equipment of IFMSA have been pledged as security for the working capital facility provided by Bank of China. (Refer to note 25 for further details).

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

21. INTANGIBLE ASSETS

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Licence:		
Cost - opening balance	10,837	-
Addition	-	10,837
Cost – closing balance	10,837	10,837
Amortisation:		
Amortisation - opening balance	(775)	-
Charge for the year	(361)	(775)
Amortisation – closing balance	(1,136)	(775)
Net book value	9,701	10,062

(a) Intangible assets consist of licence fees for the use of patented technology.

22. OTHER NON-CURRENT ASSETS

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Restricted cash (a)	44,306	17,100
Deposits	1,159	1,134
	45,465	18,234

(a) Restricted cash represents cash set aside for bank guarantees provided by Standard Bank to the Department of Minerals and Resources for environmental rehabilitation.

23. TRADE AND OTHER PAYABLES

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Sundry creditors and accruals	68,200	45,433
Trade creditors	196,505	35,577
Short term portion of finance lease liability (a)	8,349	24,988
Other creditors and accruals (b)	299	-
	273,353	105,998

(a) Refer to note 35.

(b) Other creditors and accruals represent advance debtor payments.

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

24. PROVISIONS

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
<i>Current provisions</i>		
Employee entitlements (a)	19,748	9,608
Share based payment liability (b)	6,338	3,154
Taxation	(642)	(351)
	25,444	12,411
<i>Employee entitlements</i>		
Opening balance	9,608	63,589
Provision recognised during the year	13,577	9,545
Provision utilised during the year	(3,437)	(63,526)
Closing balance	19,748	9,608
<i>Phantom options</i>		
Opening balance	3,154	35,688
Cash settled share based payment expense	5,774	3,154
Cancellation of phantom options	-	(34,662)
Effect of foreign exchange	(340)	(1,026)
Phantom options exercised and paid during the year	(2,250)	-
Closing balance	6,338	3,154
<i>Income tax</i>		
Opening balance	(351)	1,575
Provision recognised during the year	515	56
Income tax paid during the year	(806)	(1,982)
Closing balance	(642)	(351)

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

24. PROVISIONS (continued)

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
<i>Non-current provisions</i>		
Decommissioning and restoration (b)	19,692	10,741
Share based payment liability (c)	1,862	2,566
	21,554	13,307
<i>Decommissioning and restoration</i>		
Opening balance	10,741	18,104
Additional provision recognised during the year:		
-Recorded in property, plant and equipment	1,524	(3,797)
-Unwinding of discount	1,007	6,212
-Adjustment in provision assumptions	6,420	(9,778)
Closing balance	19,692	10,741
<i>Phantom options</i>		
Opening balance	2,566	9,080
Cash settled share based payment expense	123	2,566
Cancellation of phantom options	-	(8,241)
Reallocation from payables	(728)	-
Effect of foreign exchange	(99)	(839)
Closing balance	1,862	2,566

- (a) The provision for employee entitlements represents accrued annual leave liabilities and other employee provisions. It is expected that these costs will be paid in the next financial year.
- (b) The provision for decommissioning and restoration represents management's estimate of the restoration and exit costs associated with the integrated mining and ferrochrome smelting facility at Buffelsfontein and Sky Chrome. It is expected that these costs will be incurred at the end of the operations/mine life. Due to the long-term nature of the liability the greatest uncertainty in estimating the provision is the costs that will be ultimately incurred. The provision has been calculated using a pre-tax discount rate of 8%.
- (c) The Phantom Share Option scheme options are treated as "cash settled" share based payments in accordance with the accounting policy described in note 2(q).

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

25. INTEREST BEARING LOANS AND BORROWINGS

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Long term portion of finance lease liability (a)	58,374	64,722
Bank debt (b)	350,000	-
Debt Establishment costs and accrued interest (b)	(3,596)	(5,313)
Other loans (c)	4,929	4,644
	409,707	64,053

(a) Finance leases

The weighted average effective interest rate on finance leases is 11.93%.

(b) Working capital facility

On 29 June 2009 the company entered into a working capital facility agreement with the Bank of China for an amount of R500 million. The initial drawdown currency split will be 60% in USD and 40% in ZAR. The facility interest is charged at USD:LIBOR plus 1.5% on the USD portion of the loan while the ZAR portion of the loan is charged at the South African Prime rate plus 1.9%. The term of the facility is 36 months. The parent company, IFML, guarantees the facility on behalf of IFMSA. The entire balance sheet of IFMSA is pledged as collateral for the loan facility. Bank of China has the option to cancel the loan facility and call upon any balance outstanding in the event of a material deterioration in the financial position of IFMSA.

(c) Other loans

The loan constitutes the 20% tribal participation of funding provided to Sky Chrome by IFM. The loan is interest free and payable before earning distributions are made.

Undrawn loan facilities at 30 June 2010, excluding debtors discounting facilities, amounted to ZAR150 million (2009: ZAR500 million).

Fair value

The carrying values of each class of interest bearing loans and borrowings approximates their fair value.

26. CONTRIBUTED EQUITY

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Movement in ordinary shares on issue		
Opening balance	2,814,380	2,834,412
Issue of Ordinary Shares (a)	286,755	-
Share placement costs	(12,895)	-
Share buy-back (b)	-	(19,853)
Transaction costs (b)	-	(179)
Closing balance	3,088,240	2,814,380
	Shares	Shares
Opening balance	503,643,680	507,562,680
Issue of Ordinary Shares	50,364,367	-
Share buy-back (a)	-	(3,919,000)
Closing balance	554,008,047	503,643,680

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

26. CONTRIBUTED EQUITY (continued)

The details of Ordinary Shares issued during the year ended 30 June 2010 are as follows:

Period	Description of share issue	Number of shares issued	Share price	Proceeds (local currency)	Proceeds (ZAR'000)
30 June 2010	Placement of shares	50,364,367	£0.44	£22,160,321	286,755

30 June 2009 – No Ordinary Shares were issued during the year.

- (a) On 3 August 2009 IFM announced that it had raised £22.2 million (ZAR286 million) (before expenses) through the placing by Numis Securities Limited of 50,364,367 new ordinary shares with certain existing shareholders including Jiuquan Iron & Steel Group Company Limited and new institutional investors at 44 pence per share. The proceeds are being used principally to fund the investment in the Clean Development Mechanism compliant electricity co-generation plant.
- (b) On 30 September 2008, the Company announced an on-market share buy-back programme. IFM purchased 3,919,000 Ordinary Shares through this programme, at a weighted average price of £0.32 per share, all of which had voting rights and were duly cancelled. The transaction costs related to commissions paid on the Ordinary Shares re-purchased. There is no current on-market buy-back programme.

Ordinary Shares

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.

Options

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

	As at 30 June	
	2010 Number	2009 Number
Opening balance	-	1,000,000
Options granted	-	-
Options exercised	-	-
Options cancelled	-	(1,000,000)
Closing balance	-	-

In addition, JISCO has certain non-dilution rights under the Subscription Agreement, which apply if an Option is exercised, to require JISCO to be offered and issued Ordinary Shares at the same exercise price at which such Options are exercised to enable JISCO to maintain its guaranteed holding of 26.1% of the issued Ordinary Shares of the Company. These non-dilution rights are accounted for as a derivative liability. Since JISCO's shareholding is above 26.1%, under the Subscription Agreement, IFM is not obliged to offer JISCO shares in terms of the anti-dilution clause, unless the issue would dilute JISCO's ownership below 26.1%.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

26. CONTRIBUTED EQUITY (continued)

Capital Management

When managing capital, management's objective is to ensure the Group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the Group.

Capital is defined as total shareholders' equity which represented ZAR2.5 billion at 30 June 2010 (2009: ZAR2.3 billion).

The Board of Directors and Management regularly reviews the company's capital structure using a detailed cash flow model. They assess the adequacy of the capital structure against the major variables impacting the Group's profitability.

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 assessed, management may issue further shares on the market.

The company has complied with all externally imposed capital requirements.

27. SHARE BASED PAYMENT RESERVE

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Opening balance	8,272	6,617
Share based payment expense	-	1,618
Effect of foreign exchange	-	37
Closing balance at the end of the year	8,272	8,272

28. ACCUMULATED LOSSES

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Opening balance at the start of the year	(489,313)	(78,036)
Dividend payments	-	(76,148)
Loss on fair value of investment	-	64
Cancellation of shares	-	(1,418)
After tax (loss)/profit attributable to the equity holders of the parent during the year	(84,592)	(333,775)
Closing balance at the end of the year	(573,905)	(489,313)

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

29. NON-DISTRIBUTABLE RESERVE

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Opening balance	(6,044)	-
Acquisition of non-controlling interest	-	(6,044)
Closing balance of the end of the year	(6,044)	(6,044)

The non-distributable reserve relates to the transaction that took place to reduce the non-controlling interest shareholding.

30. NON-CONTROLLING INTEREST

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Opening balance at the start of the year	1,817	8,653
Reduction in share holding	-	(2,032)
(Loss) attributable to the non-controlling interest during the year	(1,214)	(4,804)
Closing balance at the end of the year	603	1,817

31. SHARE BASED PAYMENTS

Cash Settled Options

The fair value of the outstanding phantom options is estimated as at the financial reporting date using a Binomial model taking into account the terms and conditions upon which the options were granted.

	2010	2009
Expected volatility (a) (%)	75.86%	77.25%
Risk-free interest rate range (%)	0.52%- 2.21%	0.57% - 3.28%
Option exercise price (GBP)	£0.16 - £ 0.57	£0.16
Expected dividend yield range	0% - 14.8%	0% – 6.05%
Option cap	£1.00	£1.00
Exercise multiple	4	4

(a) The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. Share price volatility is re-assessed at each reporting period based on historical share prices. The current volatility is based on actual volatility since the listing of the company in September 2005.

Equity Settled Options

As at 30 June 2008, 1,000,000 options were on issue to Mr Kovarsky to subscribe for shares in IFM within a three-year period up until 31 December 2010. These options were cancelled by the Board on 30 December 2008. As a result of the accelerated amortisation of the fair value of the options, ZAR1.62 million was recorded in the income statement during financial year ended 2009.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

31. SHARE BASED PAYMENTS (continued)

Phantom Share Option Plan

During the year 897,027 options were exercised and 2,056,000 options were issued with various exercise prices. At 30 June 2010 the total number of options outstanding was 10,925,541 with an amortised liability value of ZAR8.2 million.

The estimated fair value of each phantom option tranche at reporting date is:

Exercise price	No of options	Fair value at reporting date		Fair value at reporting date
		Tranche 1	Tranche 2	
£0.16	8,941,541	£0.11	£0.11	£0.11
£0.31	416,000	£0.06	£0.06	£0.06
£0.34	832,000	£0.05	£0.05	£0.05
£0.40	604,000	£0.05	£0.05	£0.04
£0.41	72,000	£0.05	£0.05	£0.05
£0.57	60,000	£0.03	£0.03	£0.03
	<u>10,925,541</u>			

The total numbers of phantom options issued during the relevant periods are as follows:

Phantom options	Number of Options	Weighted average exercise price
Opening balance at 1 July 2008	8,076,735	£0.76
Granted during the period	10,200,568	£0.15
Forfeited/cancelled during the year	(8,347,735)	£0.76
Exercised during the period	-	-
Expired during the period	-	-
Closing balance at 30 June 2009	9,929,568	£0.15
Opening balance at 1 July 2009	9,929,568	£0.15
Granted during the period	2,056,000	£0.35
Forfeited/cancelled during the year	(163,000)	£0.16
Exercised during the period	(897,027)	£0.38
Expired during the period	-	-
Closing balance at 30 June 2010	10,925,541	£0.18

The weighted average share price for the year ending 30 June 2010 as £0.42.

The weighted average remaining contractual life of the above outstanding options is 3.71 years.

Equity share options	Number of Options	Weighted average exercise price
Opening balance at 1 July 2008	1,000,000	£0.88
Granted during the period	-	-
Forfeited/cancelled during the year	(1,000,000)	£0.88
Exercised during the period	-	-
Expired during the period	-	-
Closing balance at 30 June 2009	-	-

No equity share options were issued during the year ended 30 June 2010.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

32. PARENT ENTITY INFORMATION

	2010	2009
Information relating to International Ferro Metals Limited:	ZAR'000	ZAR'000
Current assets	242,814	322,157
Total assets	2,525,640	2,336,813
Current liabilities	4,048	6,347
Total liabilities	8,474	7,701
Issued capital	3,088,240	2,814,380
Accumulated losses	(579,346)	(493,540)
Share based payment reserve	8,272	8,272
Total shareholders' equity	2,517,166	2,329,112
Loss of the parent entity	(85,806)	(210,975)
Total comprehensive income of the parent entity	(85,806)	(210,975)
Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries (a)	500,000	500,000
Details of other financial assets(b)	2,273,692	2,005,235

- (a) On 29 June 2009 the company entered into a working capital facility agreement with the Bank of China for an amount of ZAR500 million of which ZAR350 million was drawn down as at 30 June 2010. The facility interest is charged at USD:LIBOR plus 1.5% on the USD portion of the loan while the ZAR portion of the loan is charged at the South African Prime rate plus 1.9%. The term of the facility is 36 months. The parent company, IFML, guarantees the facility on behalf of IFMSA. The entire balance sheet of IFMSA is pledged as collateral for the loan facility.
- (b) The following table represents details of other financial assets:

	2010	2009
Information relating to International Ferro Metals Limited:	ZAR'000	ZAR'000
Investment in subsidiaries at cost	1,967,601	1,578,601
Provision for diminution (c)	(389,566)	(269,023)
Net investment in subsidiaries	1,578,035	1,309,578
Receivable from Jefferson Investments Limited (d)	695,657	695,657
	2,273,692	2,005,235

- (c) This provision has arisen as a result of losses incurred by subsidiary companies during the current financial year.
- (d) IFML purchased a preference share from Jefferson Capital, a member of a UK financial institution, for ZAR695 million. Simultaneously, IFMSA issued a debenture to Morgan Stanley for ZAR695 million. The debenture was secured against the preference shares. On 25 September 2008, the Board resolved to restructure IFMSA financing arrangements to extinguish IFML's exposure to Morgan Stanley counterparty risk as disclosed in the Annual Financial Statement for the year ended 30 June 2009. The coupon on both the preference shares and the debenture is 12.5% compounded semi-annually in arrears. The debenture term ends on 25 January 2016. The Group is entitled to set off the preference share and the debenture, as such, these items have been set off in the consolidated balance sheet.
- (e) The parent entity has no contingent liabilities, nor does it have any contractual commitments for the acquisition of property, plant or equipment.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

33. FINANCIAL RISK MANAGEMENT AND OBJECTIVES

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

Exposure to foreign currency risk, interest rate risk, commodity price risk, credit risk, liquidity risk and share price risk arises in the normal course of the Group's business. Derivative financial instruments may be used to hedge exposure to fluctuations in foreign exchange rates, interest rates, and commodity prices. During the period under review the Group entered into certain forward exchange contracts ("FEC") in order to hedge against fluctuating exchange rates.

The following table displays the financial instruments held at the end of the year:

Financial Assets and Liabilities by categories

At 30 June 2010	Loans and receivables	Held to maturity investments	At fair value through profit & loss	Financial liabilities measured at amortised cost	Other financial assets and liabilities	Total
Consolidated	ZAR'000	ZAR'000	ZAR'000	ZAR'000	ZAR '000	ZAR'000
<u>Recognised Financial Assets</u>						
Cash & Cash equivalents (note 15)	-	258,200	-	-	138,726	396,926
Trade and other receivables (note 16)	230,031	-	-	-	-	230,031
Deposits (note 22)	1,159	-	-	-	-	1,159
Restricted cash (note 22)	-	44,306	-	-	-	44,306
Other financial assets	-	-	113,946	-	-	13,946
Total recognised financial assets	231,190	302,506	13,946	-	138,726	686,368
<u>Recognised Financial Liabilities</u>						
Trade and other payables (note 23)	-	-	-	(273,353)	-	(273,353)
Interest bearing liabilities (note 25)	-	-	-	(409,707)	-	(409,707)
Total recognised financial liabilities	-	-	-	(683,060)	-	(683,060)
<u>Unrecognised Financial Liabilities</u>						
Un-drawn loan facilities (note 25)	-	-	-	(150,000)	-	(150,000)
Total unrecognised financial liabilities	-	-	-	(150,000)	-	(150,000)

¹ These financial assets consist of investment portfolios which are managed by various financial institutions. The fair value of these financial instruments have been estimated by these financial institutions using a variety of valuation techniques. These financial instruments are classified as a level 2 in the fair value hierarchy as their fair values have been estimated using inputs other than quoted prices that are observable for the assets, either directly or indirectly.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

33. FINANCIAL RISK MANAGEMENT AND OBJECTIVES (continued)

Financial Assets and Liabilities by categories

At 30 June 2009	Loans and receivables	Held to maturity investments	At fair value through profit & loss	Financial liabilities measured at amortised cost	Other financial assets and liabilities	Total
Consolidated	ZAR'000	ZAR'000	ZAR'000	ZAR'000	ZAR'000	ZAR'000
<u>Recognised Financial Assets</u>						
Cash & cash equivalents (note 15)	-	303,903	-	-	36,186	340,089
Trade and other receivables (note 16)	61,115	-	-	-	-	61,115
Deposits (note 22)	1,134	-	-	-	-	1,134
Restricted cash (note 22)	-	17,100	-	-	-	17,100
Other financial assets	8,550	-	-	-	-	8,550
Total recognised financial assets	70,799	321,003	-	-	36,186	427,988
<u>Recognised Financial Liabilities</u>						
Trade and other payables (note 23)	-	-	-	(105,998)	-	(105,998)
Interest bearing liabilities (note 25)	-	-	-	(64,053)	-	(64,053)
Total recognised financial liabilities	-	-	-	(170,051)	-	(170,051)
<u>Unrecognised Financial Liabilities</u>						
Un-drawn loan facilities (note 25)	-	-	-	(500,000)	-	(500,000)
Total unrecognised financial liabilities	-	-	-	(500,000)	-	(500,000)

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. The Group performs an ageing analysis for credit risk.

Treasury risk management is carried out by a central treasury function under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

33. FINANCIAL RISK MANAGEMENT AND OBJECTIVES (continued)

(i) Foreign currency risk

Foreign exchange risk arises from commercial transactions and recognised assets and liabilities that are denominated in currencies other than the functional currency of each entity in the Group, which is South African Rand (ZAR). In order to hedge this foreign currency risk, the Group may enter into forward foreign exchange ("FEC"), foreign currency swaps and foreign currency option contracts. During the year the group entered into FEC contracts in order to hedge against the fluctuations of the ZAR against the USD. The details of the FEC's are as follows:

FEC Value – USD	FEC RATE	Profit on FEC
US\$64,100,000	ZAR/USD7.68	ZAR6,986,450

The above forward exchange contracts were used to manage transactional exposure and was not classified as cash flow, fair value or net investment hedges and are entered into for periods consistent with the currency transaction exposure. These derivatives do not qualify for hedge accounting and therefore profits and or losses resulting from the transactions where accounted for in the income statement.

The following tables represent the financial assets and liabilities denominated in foreign currencies:

Consolidated	Foreign currency amount		Amount in ZAR		Rate of exchange	
	2010	2009	2010	2009	2010	2009
	'000	'000	ZAR'000	ZAR'000		
Financial Assets						
Cash and cash equivalents						
- US Dollar	9,298	4,696	70,758	36,346	ZAR/US\$7.61	ZAR/US\$7.74
- Euro	9,986	17,652	92,870	192,973	ZAR/€9.30	ZAR/€10.93
- UK pound sterling	3,713	1,879	42,514	24,322	ZAR/£11.45	ZAR/£12.94
- AU Dollar	2,809	6,518	18,399	41,260	ZAR/A\$6.55	ZAR/A\$6.33
Trade and other receivables						
- US Dollar	26,779	7,272	203,788	56,285	ZAR/US\$7.61	ZAR/US\$7.74
- AU Dollar	15	38	99	243	ZAR/A\$6.55	ZAR/A\$6.33
Financial Liabilities						
Trade and other payables						
- Euro	8	-	74	-	ZAR/€9.30	ZAR/€10.93
- UK pound sterling	40	21	458	271	ZAR/£11.45	ZAR/£12.94
- AU Dollar	194	261	1,271	1,649	ZAR/A\$6.55	ZAR/A\$6.33

The Group had no foreign currency borrowings at year end (2009: nil).

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

33. FINANCIAL RISK MANAGEMENT AND OBJECTIVES (continued)

(i) Foreign currency risk

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. Equity is not affected by changes in foreign currency exchange rates.

Consolidated	2010	2009
Pre-Tax Profit Higher/(lower)	ZAR'000	ZAR'000
Consolidated		
ZAR/USD +10%	27,455	9,263
ZAR/USD - 10%	(27,455)	(9,263)
ZAR/EUR +10%	9,280	19,297
ZAR/EUR - 10%	(9,280)	(19,297)
ZAR/GBP + 10%	4,206	2,405
ZAR/GBP - 10%	(4,206)	(2,405)
ZAR/AUD + 10%	1,723	3,961
ZAR/AUD - 10%	(1,723)	(3,961)

(ii) 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 exposed to interest rate movement through variable rate debt and interest bearing investment of surplus funds. Other than for finance leases, the Group has undrawn borrowing facilities of ZAR150 million at year end (2009: ZAR 500 million).

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

Consolidated	Variable Interest	Fixed Interest
2010	ZAR'000	ZAR'000
Financial Assets		
Cash equivalents	396,926	-
Restricted cash	1,159	44,306
Financial Liabilities		
Interest bearing liabilities (note 23 & 25)	(404,778)	(58,496)
Total	(6,693)	(14,190)

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

33. FINANCIAL RISK MANAGEMENT AND OBJECTIVES (continued)

(ii) Interest rate risk (continued)

Consolidated 2009	Variable Interest	Fixed Interest
	ZAR'000	ZAR'000
Financial Assets		
Cash equivalents	340,089	-
Restricted cash	1,134	17,100
Financial Liabilities		
Interest bearing liabilities (note 23 & 25)	(30,582)	(59,158)
Total	310,641	(42,058)

Consolidated	Pre-tax loss Higher/(Lower)	
	2010 ZAR'000	2009 ZAR'000
Interest rates +1%	67	(3,106)
Interest rates -1%	(67)	3,106

On 29 June 2009, the Company entered into a working capital facility with Bank of China for an amount of ZAR500 million. Since draw down of the funds commenced, the Group has maintained an interest rate structure which reduces the impact of rapidly increasing interest rates on projects. This has been done by alternating between one and three months JIBAR roll forward. This decision is reviewed at each treasury committee meeting.

(iii) Commodity price risk exposure

The group is exposed to the risk of fluctuations in prevailing market commodity prices of ferrochrome and coke. The price of ferrochrome has fluctuated widely, particularly in recent years, and 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, speculative activities and increased production due to new extraction developments and improved extraction and production methods. The effect of these factors on the price of ferrochrome, and therefore the financial performance of the Group cannot accurately be predicted. However, the Group may enter into ferrochrome option contracts to manage its commodity price risk. To date these contracts have not been easily accessible and the Group has not entered into any of these agreements. The final trade receivables balance, in some instances where applicable, is adjusted to take into account any movements in the ferrochrome price.

(iv) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents (note 15) and trade and other receivables (note 16). The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group trades only with recognised, creditworthy third parties and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. Due to the global demise in large reputable companies the group has made use of bank issued Letters of Credit and has discounted certain of its debtors. In addition, receivable balances are monitored on an ongoing 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.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

33. FINANCIAL RISK MANAGEMENT AND OBJECTIVES (continued)

(iv) Credit risk (continued)

Trade Receivables

IFMSA has an off-take agreement with JISCO, the largest steel maker in Northwest China. Under the terms of the agreement entered into in June 2005, JISCO agreed to purchase at least 120,000 tpa of ferrochrome on a take-or-pay basis at a market related price dependant on IFM's sales to Europe. JISCO also agreed to act as agent for IFMSA to market ferrochrome in China, Taiwan, Japan and Korea.

In addition, IFMSA has a further off-take agreement with CMC Cometals, a division of Commercial Metals Company ("CMC") to purchase 30,000 tpa of ferrochrome, as well as 20,000 tpa of ferrochrome fines, on a take-or-pay basis at a market related price. In addition, CMC acts as an exclusive agent selling the remainder of the Group's ferrochrome production outside JISCO's territories as identified above.

The effect of the global economic crisis has forced the Group to transact with various other parties in order to secure better prices and volumes.

As a result of the off-take agreements most the Group's Trade Receivables relate to sales made to JISCO and Co-Metals, presenting a counterparty concentration of risk. JISCO is a Chinese state owned company and CMC is a New York Stock Exchange listed metals trader with a market capitalisation of US\$1.5 billion. IFMSA has the option of receiving a provisional payment from its offtake partners of up to 90% of the value of each shipment within 15 working days of any shipment. This provisional payment accrues interest by IFMSA. The balance due, which is payable up to six months later, is jointly determined by the offtake partners and IFMSA, based on actual prices, costs and factors that affect the landed price of each shipment. The Group does not hold any credit derivatives to offset its credit exposure, other than Letters of Credit. No impairment was recognised as IFM considers the offtake partners to be in a sound financial position. There are no receivables past due and considered impaired.

Cash and Investments

The credit risk policy aims to ensure that the organisation 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 balance sheet 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:

	Consolidated	
	2010 ZAR'000	2009 ZAR'000
Financial Assets		
Cash & Cash equivalents	396,926	340,089
Receivables	230,031	81,059
Restricted cash	59,411	26,784
Total	686,368	447,932

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

33. FINANCIAL RISK MANAGEMENT AND OBJECTIVES (continued)

(iv) Credit risk (continued)

Set out below is an ageing analysis on the Group's Trade Receivables:

	Total	0-30 days	31-60 days	61-90 days	91-120 days	120-150 days
			PDNI*	PDNI	PDNI	PDNI
	ZAR'000	ZAR'000	ZAR'000	ZAR'000	ZAR'000	ZAR'000
2010						
Consolidated	203,874	168,393	5,797	3,953	21,131	4,600
2009						
Consolidated	62,678	37,860	13,723	2,925	132	8,038

* Past due not impaired ('PDNI')

None of the consolidated or parent trade and other receivables are considered past due or impaired.

Credit terms for customers and agents are 30 days from the date of the final invoice. The final invoice is issued once the product is received (average time between product being delivered FOB and to time received by customer is between 3-4 months) and final specification agreed by the customer. Debtors sales are recognised, in accordance with AASB 118 "Revenue", when risks and rewards transfer. The long shipment lead time between BOL date and final invoice date may move certain debtors into the PDNI category. Sales are recognised on "Free On Board" or "at-port".

(v) 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 ongoing requirement to have committed funds in place to cover both existing business cash flows and 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.

The Group attempts to accurately project the sources and uses of funds, whereby a framework for decision making is established which increases the effectiveness and efficiency with which the treasury function operates.

The Group's approach is to develop long term relationships with a core group of quality banks. The benefit of this approach is to establish a high degree of confidence and commitment between the parties so that banks are prepared to meet funding requirements at crucial times and at short notice.

The table below summarises the maturity profile of the Company's contractual cash flow financial liabilities at 30 June 2010 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

33. FINANCIAL RISK MANAGEMENT AND OBJECTIVES (continued)

(v) Liquidity Risk (continued)

Consolidated Liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	ZAR '000	ZAR '000	ZAR '000	ZAR '000	ZAR '000	ZAR '000
As at 30 June 2010						
Trade and other payables	-	265,004	-	-	-	265,004
Finance Leases	-	2,087	6,262	5,454	52,920	66,723
Loans	-	1,321	-	350,000	4,929	356,250
Total liabilities 2010	-	268,412	6,262	355,454	57,849	687,977
As at 30 June 2009						
Trade and other payables	-	81,007	-	-	-	81,007
Finance Leases	-	21,456	11,643	44,616	122,560	200,275
Loans	-	-	-	-	-	-
Total liabilities 2009	-	102,463	11,643	44,616	122,560	281,282

34. POST BALANCE SHEET EVENTS

Subsequent to 30 June 2010, the Company has increased its draw down of the Bank of China working capital facility to R450 million.

No other material matters or circumstances have arisen since 30 June 2010 that have significantly affected or may significantly affect:

- the Company's operations in future financial years; or
- the result of those operations in future financial years; or
- the Company's state of affairs in future financial years.

35. COMMITMENTS AND CONTINGENCIES

Capital commitments

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Contracted for	89,593	89,181
Authorised but not contracted for	44,332	-
	133,925	89,181

- Contractual obligations relate mainly to the Clean Development Mechanism compliant electricity co-generation plant project (ZAR62 million) and upgrading of the metal recovery plant (ZAR11 million).
- Other large non-capital projects include the UG2 purchase of ZAR161 million.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

35. COMMITMENTS AND CONTINGENCIES (continued)

Finance lease commitments

The minimum lease payments under finance lease arrangements are set out in the following table:

	Consolidated	
	2010	2009
	ZAR'000	ZAR'000
Within 1 year	15,567	33,099
Between 1 and 5 years	37,910	44,616
Greater than 5 years	114,829	122,560
Total future lease payments	168,306	200,275
Less: future finance charges	(101,583)	(110,565)
Lease liability	66,723	89,710
Represented by:		
Current lease liability	8,349	24,988
Non-current lease liability	58,374	64,722
Lease liability	66,723	89,710

The present values of lease payments under finance lease arrangements are set out in the following table:

Within 1 year	8,349	24,988
Between 1 and 5 years	5,454	10,306
Greater than 5 years	52,920	54,416
Lease liability	66,723	89,710

Contingent liabilities

There were no contingent liabilities outstanding at 30 June 2010.

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

36. RELATED PARTY TRANSACTIONS

Loans to Directors and Director-related entities

No loans have been granted to Directors and/or Director-related entities.

Refer to audited Remuneration Report for details of remuneration and arrangements with Key Management Personnel.

The Parent company received management fees from its subsidiary company International Ferro Metals SA (Pty) Limited. Related party transactions exist between the companies within the group.

Management fees due to the parent company totalled ZAR6.1 million.

Jiuquan Iron and Steel Group Company (JISCO) own 29.10% (2009: 28.89%) of the Parent company's shares. Sales made to JISCO totalled 47,886 tonnes and were made in terms of the off-take agreement which was entered into at arm's length. The value of sales made to JISCO during the year amounted to ZAR354 million.

Mr Kovarsky was formerly the CEO of Pyromet Technologies and Sublime Technologies. During the financial year ended 30 June 2010 the following sales and purchases were made to these companies through IFM:

Purchases from Sublime totalled 7,074 tonnes of silicon carbide with a value of ZAR40.4 million. There were no amounts outstanding at year end.

Purchases made from Pyromet amounted to ZAR1.3 million for the year ended 30 June 2010. There were no amounts outstanding at year end.

37. INTEREST IN SUBSIDIARIES

The Company has the following direct/indirect material interests in subsidiaries:

Name	Country of Incorporation	Ownership interest		Investment
		2010	2009	
International Ferro Metals SA (Pty) Limited	South Africa	99.375%	99.375%	ZAR338 million
Purity Metals Holdings Limited	British Virgin Islands	100%	100%	USD9 million
Sky Chrome Mining (Proprietary) Limited	South Africa	80%	80%	ZAR800
International Ferro Metals SA Holdings (Pty) Limited	South Africa	100%	100%	ZAR1.1 billion

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

38. AUDITORS REMUNERATION

	Consolidated	
	2010	2009
Amounts received or due and receivable by Ernst & Young Australia for:		
(i) an audit or review of the financial report of the entity and any other entity in the consolidated entity	860,319	2,002,533
(ii) other assurances	-	153,467
Total received by Ernst & Young Australia	860,319	2,156,000
Amounts received or due and receivable by Ernst & Young South Africa for:		
(i) an audit or review of the financial report of any other entity in the consolidated entity	1,276,800	1,760,518
(ii) other assurance services	-	101,878
(iii) taxation services	49,956	45,320
Total received by Ernst & Young South Africa	1,367,756	1,907,716
Closing balance	2,187,075	4,063,716

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of International Ferro Metals Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(b).
- (c) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.
- (d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2010.

On behalf of the Board



David Kovarsky
Director
Sydney
27 September 2010

Independent audit report to members of International Ferro Metals Limited

Report on the Financial Report

We have audited the accompanying financial report of International Ferro Metals Limited, which comprises the statement of financial position as at 30 June 2010, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our 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, we consider 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 met 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. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

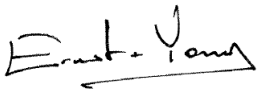
1. the financial report of International Ferro Metals Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of International Ferro Metals Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Anton Ivanyi
Partner
Sydney
27 September 2010