

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 JUNE 2014

Highlights:

- **Expanded the resource model after entering into a Memorandum of Understanding with the owners of the property adjacent to the Ponto Verde iron ore project.**
- **Reduced production costs.**
- **Extended the timing of the Bankable Feasibility Study due to changing mine plan and licencing delays.**

SAFM's Managing Director, Stephen Turner commented:

"The signing of the MOU on the property adjacent to the Ponto Verde iron ore project marks an important milestone for the Company's development. The Company has received drill hole survey data from this property and is currently performing detailed mining studies to assess the enlarged scope of its BFS.

The proactive leadership of our recently appointed General Manager, Glauco Mol, has generated significant improvements at the mine, in particular the introduction of a Low Intensity Magnetic Separator and the implementation of a successful cost reduction programme. These improvements should have a positive impact on future earnings, which are currently being weighed down by the decline in the international iron ore price.

The delay in receiving the Expansion licence application is disappointing. SAFM is utilising the extended time to reassess the resource data with the aim of designing a larger pit design and continue to work with State authorities to obtain the Expansion licence and ancillary Logistics permits required for our expansion."

South American Ferro Metals Limited (ASX: SFZ) ("SAFM" or the "Company") provides the following commentary for the three months ended 30 June 2014, to be read in conjunction with Appendix 5B.

1. Expansion project

On 18 June 2014, SAFM entered into a Memorandum of Understanding ("MOU") with the owners of the property adjacent to its Ponto Verde iron ore project.

The MOU sets out, on a non-binding basis, the fundamentals for the negotiation towards an agreement that will allow SAFM to mine the ore body located on the eastern side of its tenement in the property Sapecado Sul, contiguous with the SAFM Ponto Verde mine.

The Company has received the drill hole survey data for this property and is currently working on a new and enlarged block model for the expansion of the SAFM Ponto Verde mine.

SAFM believes that the arrangement will have significant advantages for both SAFM and its neighbour by increasing its pit shell design to access additional ore.



Based on preliminary results of the enlarged mining study, the Board has decided to extend the scope of the Bankable Feasibility Study ("BFS") to incorporate the possibility of a larger pit. The overall scope and timing of the enlarged project is currently being assessed.

SAFM continues to work with its advisers, Logisamm and Ausenco in advancing its BFS. Recent milestones achieved are:

- Approval of the process flow-sheet and plant layout concept.
- The finalisation, on an order of magnitude, of the capital and operation expenditure for development of the Ponto Verde expansion.
- Finalisation of the variability test work with Gaustec, which validates the process design factors used in the feasibility study.
- Completion of the geo-technical study for the waste and tailings areas to the north and south of SAFM's tenement.
- Agreement with the State of Minas Gerais to deliver significant benefits including fiscal concessions, assistance in securing licenses and low cost financing.

In July 2013, SAFM has submitted its Expansion licence application to SUPRAM, the regulatory mining body in Minas Gerais, to increase its annual ROM production licence from 1,500,000 tonnes to 8,000,000 tonnes and is currently awaiting approval. During this period, the process has been delayed due to a study of a local flora and vegetation suppression of the area. This suspension of licencing affects all projects in Brazil's iron ore quadrilateral. The Agency has not provided guidance as to when the study will be completed.

Based on the above, SAFM has extended its BFS timeline to assess the enlarged resource block model and provide an additional period for the receipt of the Expansion licence and ancillary Logistics permits from the Minas Gerais State Government.

2. Production volumes

| | Mar 14 Qtr (tonnes) | June 14 Qtr (tonnes) | Movement (tonnes) | Movement (%) |
|----------------------------------|---------------------------|----------------------------|----------------------|-----------------|
| ROM production | 339,644 | 383,016 | 43,372 | 13% |
| Beneficiated production | 192,820 | 215,113 | 22,293 | 12% |
| Finished stock at end of Quarter | 27,990 | 14,193 | (13,797) | (49%) |

On 17 June 2014, SAFM installed a Low Intensity Magnetic Separator which aims to improve mass recovery by extracting the high magnetic particles prior to processing in the first Concentrator. In addition, SAFM has installed standby pumps on both Concentrators that have reduced unscheduled plant shut-downs and increased plant availability with record monthly production being achieved in July 2014.

3. Sales volumes

| | Mar 14 Qtr (tonnes) | June 14 Qtr (tonnes) | Movement (tonnes) | Movement (%) |
|-------------------------------------|---------------------------|----------------------------|----------------------|-----------------|
| Sinter Feed | 126,206 | 79,454 | (46,752) | (37%) |
| Lump | 80,456 | 53,420 | (27,036) | (34%) |
| Concentrate | 110,384 | 83,101 | (27,283) | (25%) |
| Total sales of Beneficiated product | 317,046 | 215,975 | (101,071) | (32%) |

Sales of beneficiated product decreased by 32% during the June 2014 quarter to 215,975 tonnes due to lower stockpiles carried forward from the previous quarter, as well as logistical difficulties arising



from the FIFA World Cup. Selling prices decreased by an average of 8.7% in the June 2014 quarter reflecting the drop in the international iron ore price.

4. Cost reduction programme

During the quarter, SAFM continued to implement cost reduction measures and efficiency enhancement programmes. Some of the measures implemented during the quarter include: the amalgamation of the power generators on site; water management improvements; reduction of ancillary leased machinery; and enhancements to maintenance procedures.

5. Safety and Environment

SAFM has implemented a series of safety improvements including re-designing the routes of trucks and heavy equipment within the Ponto Verde Mine site, installing plant barriers and purchasing new safety equipment for employees.

SAFM's safety and environmental performance underpins the Company's license to operate and grow in Brazil. There was no lost time due to injuries during the quarter.

6. Cash Flow from Operations

SAFM recorded a positive net operating cash flow from operations of \$831,000 for the June 2014 quarter. The Company's capital projects utilised cash expenditure of \$1.7 million, mostly related to the BFS. The Company's cash balance at the end of the quarter was \$3.4 million.

For more information:

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About South American Ferro Metals Limited:

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

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

Forward Looking Statements

This announcement contains certain forward looking statements which by nature, contain risk and uncertainty because they relate to future events and depend on circumstances that occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements.

Website: www.safml.com