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9 February 2015

Mr S Bednarczyk
Senior Adviser, Listings Compliance (Perth)
ASX Compliance Pty Limited
Level 40 Central Park
152-158 St Georges Terrace
Perth WA 6000

By Email: Sebastian.Bednarczyk@asx.com.au

Dear Sebastian

South American Ferro Metals Limited (Company)

I refer to your letter in respect to the Appendix 5B for the period ended 31 December 2014 and provide the following responses to your questions, using the same numbering.

1. Is it possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the quarter indicated by the Appendix 5B, taking into account future administration costs, the Company may not have sufficient cash to fund its activities. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?

The Company expects to have sufficient cash to fund its activities based on factors such as:

- The Company operates a producing iron ore mine in Brazil which sells all of its production in country.
- Record quarterly beneficiated production for the quarter ended 31 December 2014 was achieved as per the quarterly activities report.
- Cash received for the quarter was below expectations due to the receipt of trade receivables being reduced due to the early closure of businesses for the holiday season. Cash flow is therefore expected to increase in the current quarter.
- The Company continues to reduce production costs as noted in the activities review and is a relatively low cost producer.
- The Company is also taking steps to seek to raise additional funding and to refinance its existing facility with Deutsche Bank. The Company is in discussions with potential investors and existing shareholders regarding possible funding options. As noted in the Activities report, the Company is also in discussions to seek to refinance its facility with Deutsche Bank. These discussions remain confidential, and the Company is of the view that they constitute an incomplete proposal or transaction and that a reasonable person would not expect this information to be disclosed. The Company will provide a further update once any such discussions have been progressed further.

2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 5B for the quarter and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?

The Company does not expect to have a negative operating cash flows similar to those for the previous quarter, and it expects cash flows to improve as per comments and steps contemplated at question 1. Whilst the Company expects its cash flows to improve, due to the current low iron ore prices, the Company may continue to experience some negative cash flow in the near term.

3. What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives?

The Company believes it is continuing to meet its business objectives as an iron ore producing company. The Company's response to question 1 above sets out the steps being taken by the Company to continue to meet its business objectives.

4. Can the Company confirm that it is in compliance with the listing rules, and in particular? listing rule 3.1?

The Company confirms it is in compliance with the listing rules, including listing rule 3.1.

5. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

The Company considers that its level of operation and the financial condition of the Company is sufficient to warrant its continued listing on ASX in accordance with the requirements of listing rule 12.2.

I trust the above answers your questions. Please contact me if you have any further queries.

Yours Sincerely



Dion Cohen
Company Secretary



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5 February 2015

Dion Cohen
Company Secretary
South American Ferro Metals Limited
151 Macquarie Street
SYDNEY NSW 2000

By email: DCohen@safml.com

Dear Dion,

South American Ferro Metals Limited (the "Company")

I refer to the Company's Quarterly Cashflow Report in the form of Appendix 5B for the period ended 31 December 2014, released to ASX Limited ("ASX") on 30 January 2015 (the "Appendix 5B").

ASX notes that the Company has reported the following.

1. Receipts from product sales and related debtors of \$5,710,000.
2. Net negative operating cash flows for the quarter of \$638,000.
3. Cash at end of quarter of \$727,000

In light of the information contained in the Appendix 5B please respond to each of the following questions.

1. Is it possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the quarter indicated by the Appendix 5B, taking into account future administration costs, the Company may not have sufficient cash to fund its activities. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?
2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 5B for the quarter and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?
3. What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives?
4. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?

5. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

Listing rule 3.1

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in the rule.

In responding to this letter you should consult listing rule 3.1 and the guidance note titled "Continuous disclosure: listing rule 3.1".

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

This letter and your response may be released to the market. If you have any concerns about your response being released, please contact me immediately. Your response should be sent to me by **email or facsimile number (08) 9221 2020**. It should not be sent to the Market Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, not later than **half an hour before the commencement of trading (6:30 am WST) on Monday, 9 February 2015**.

If you are unable to respond by the time requested you should consider a request for a trading halt in the Company's securities.

If you have any queries, please do not hesitate to contact me on 9224 0053.

Yours sincerely,

[sent electronically without signature]

Sebastian Bednarczyk
Senior Adviser, Listings Compliance (Perth)