

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 MARCH 2015

Highlights:

- **Increased sales volumes.**
- **Implementation of additional cost cutting measures, including retirement of two directors.**
- **Steady progress on feasibility work for the development of adjacent resource.**
- **Ongoing work on submission for Expansion Licence with expected approval in August 2015.**
- **Lower Production volumes, primarily due to the replacement of the Primary Plant's jaw crusher and downtime during the installation of the second Low Intensity Magnetic Separator.**
- **Advanced discussions with Deutsche Bank on loan facilities.**

SAFM's Managing Director, Stephen Turner, commented:

"Sustained low iron ore pricing continues to place downward pressure on SAFM's turnover. The company has responded by implementing further cost cutting measures and by installing a new Low Intensity Magnetic Separator in order to reduce its production costs in the short term.

To further assist in cutting costs, the company announces the retirement of two of its directors, namely Mr Rogerio Caporali and Mr Wayne Kernaghan. Both directors have played an invaluable role in the functioning of the company, and the staff and management of SAFM would like to express their gratitude for their contribution.

SAFM is also continuing its discussions with Deutsche Bank regarding the restructuring of its loan facility."

South American Ferro Metals Limited (ASX: SFZ) ("SAFM" or the "Company") provides the following commentary for the three months ended 31 March 2015, to be read in conjunction with Appendix 5B.

1. Agreement with owners of adjacent property

SAFM continues feasibility work on the property adjacent to its Ponto Verde iron ore project. Once completed, the evaluation will form the basis for a joint venture with the property's owner to develop the ore body which is located on the eastern side of SAFM's tenement in the property Sapecado Sul, contiguous with the SAFM Ponto Verde mine.

In the March 2015 quarter, SAFM developed a hybrid block model based on geological data collected from both resource bodies. This will be applied to compile a mine sequencing schedule and a production plan for the proposed joint mining.

2. Expansion Licence

SAFM is continuing to work with SUPRAM, the regulatory environmental agency in Minas Gerais, on its licence application to increase annual ROM production from 1.5 Mtpa to 8 Mtpa.



During the quarter, SAFM provided a Stability Analysis Report to address its future Waste and Tailings disposal methodology. In addition, as part of the licensing approval process, SUPRAM conducted a site visit of the Ponto Verde Mine to inspect the adequacy of certain aspects of SAFM's key license requirements, including its proposed vegetation suppression areas and the planned waste and tailings facilities.

SAFM is in the process of addressing the remaining requirements for the expansion license. The company anticipates that SUPRAM will approve SAFM's application at the August/September 2015 public hearing.

3. Production volumes

	Dec 14 Qtr (tonnes)	March 15 Qtr (tonnes)	Movement (tonnes)	Movement (%)
ROM production	510,406	389,858	(120,548)	(24%)
Beneficiated production	253,595	239,260	(14,335)	(6%)
Finished stock at end of Quarter	61,603	34,443	(27,160)	(44%)

SAFM recorded lower production volumes during the March 2015 quarter arising from a number of production interruptions, including scheduled production shut downs to replace the Primary Plant's jaw crusher, the installation of the second Low Intensity Magnetic Separator, and other maintenance procedures required to key parts of SAFM's primary plant.

4. Sales volumes

	Dec 14 Qtr (tonnes)	March 15 Qtr (tonnes)	Movement (tonnes)	Movement (%)
Sinter Feed	1,039	6,002	4,963	452%
Lump	59,621	87,358	27,737	47%
Concentrate	52,714	54,556	1,842	3%
Blend	116,008	118,707	2,699	2%
Total sales of Beneficiated product	229,382	266,623	37,241	16%

SAFM was able to increase sales volumes during the March 2015 Quarter due primarily to higher demand for its Lump product. Because of reduced production during the quarter, the increased sales volumes resulted in a reduction in inventory levels.

During the quarter, SAFM's average weighted selling price decreased from \$27.08 per tonne to \$23.03 per tonne. In an aim to realise higher prices, SAFM continued to blend its Sinter and Concentrate products for sale to its customer base.

5. Cost reduction programme

During the quarter, SAFM continued to implement cost reduction measures and efficiency enhancement programs resulting in a reduction in production costs to \$18.71 per tonne for the month of March 2015.

These cost cutting measures, combined with the devaluation of the Brazilian Real of 11% against the US dollar over the quarter, make it feasible for SAFM's operations to operate profitably at these sustained low iron ore prices.

In order to further reduce Australian based costs, SAFM accepted the retirement from its Board of two of its five directors, with the board now comprising the minimum of three directors (refer below). In addition, SAFM is in the process of moving its finance function to Brazil thereby reducing its Australian staff complement and overhead costs.

6. Retirement of Directors

SAFM has received notices of retirement from its two non-executive directors, Mr Rogerio Caporali and Mr Wayne Kernaghan. Having been directors of the Company over the past two years, Mr Caporali and Mr Kernaghan have made invaluable contributions to SAFM's current operations, in particular its expansions plans.



The Company takes this opportunity to thank both gentlemen for their service to the Company.

7. Refinancing of Deutsche loan

As announced previously, the Company has been in discussions with Deutsche Bank regarding its US\$15 million loan facility, as the reduction in the price of iron ore and the company's cashflows mean that it is not certain how the loan will be able to be repaid in July 2015.

SAFM has made an offer to Deutsche Bank for repayment of its loan at a discount to book value. The bank is assessing competing offers and expects to make a decision within a month. Deutsche Bank has agreed to defer any interest payment by the Company for the period while it assesses these offers.

8. Safety and Environment

SAFM has implemented a series of safety improvements, including the conducting of on-site hearing and sight exams for mine staff, the updating of safety procedures and the purchasing new high visibility protective clothing for the night shift staff.

In line with its environmental objectives, SAFM joined with other local business in an effort to collect and dispose of rubble and debris abandoned around the local district. In addition, SAFM is re-developing its compliance plan and checklist to ensure the Company continues to fulfill its legal and environmental commitments.

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

9. Cash Flow from Operations

SAFM recorded a net cash flow generated from operations of \$839,000 for the quarter ended March 2015. The Company's capital projects utilised cash expenditure of \$320,000, relating to the above mentioned plant upgrades. The Company's cash balance at the end of the quarter was \$1 million.

To ensure adequate capital for its ongoing operations, SAFM has a working capital facility from Itau Bank of R\$5 million (A\$2.2 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.

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