

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2013

Highlights:

- **Record production volumes for the quarter.**
- **New offtake agreement entered into with Vale for sales of Concentrate and Sinter Feed.**
- **Acquisition of waste and tailing disposal property as part of SAFM's expansion to 8 Mtpa.**
- **Steady Progress on Bankable Feasibility Study with an expanded scope of work. The Bankable Feasibility Study is expected to be completed by 30 April 2014.**
- **Refurbishment programme successfully completed.**

South American Ferro Metals Limited (ASX: SFZ) ("SAFM" or the "Company") provides the following commentary for the three months ended 30 September 2013, to be read in conjunction with Appendix 5B.

SAFM's Chief Executive Officer, Stephen Turner commented:

"SAFM's production team worked expeditiously to address the recent water reticulation issues and it is pleasing to report record beneficiated production for the quarter. During the quarter, the plant has been refurbished and performance continues to exceed daily production records.

The acquisition of the waste and tailing property marks a significant milestone in SAFM's expansion project. Strong progress is being made on the BFS with the targeted date of completion being April 2014. Work continues and is expected to accelerate on a number of fronts over the next two quarters.

Renewed sales focus is being placed for all SAFM's products and it is commendable that the Company has recently signed an offtake agreement with Vale for the sale of both Sinter and Concentrate products."

1. Expansion project

Acquisition of waste and tailings properties

SAFM entered into an agreement for the acquisition of a 100 hectare property in the south of its Ponto Verde Mine. The details of the acquisition were announced on 10 October 2013. An option Agreement has also been signed to acquire an additional adjoining 100 hectare area for future requirements.

A technical and environmental study of the area has been conducted by Consultoria e Empreendimentos de Recursos Naturais Ltda ("CERN") confirming that there are no restrictions



regarding the deposition of waste and tailing on the two sites. Furthermore, there are no archaeological impediments discovered on the site which would limit its use.

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

Mine Planning

Coffey International Limited ("Coffey") has completed a desk-top-study to determine the viability of expanding the PVM mine site. They also performed a mining supply assessment inclusive of budget quotations of the mining equipment required for production of ore and handling of waste.

Based on the above study, a preliminary mine schedule has been formulated which includes the selection of mining methods and equipment and a definition of the production rate. Further mining scheduling and design studies are scheduled for completion later this year.

Plant and Infrastructure Design

SAFM is currently evaluating two logistical solutions for transportation from the mine to the rail terminal. Preliminary geotechnical investigations have been completed for the proposed process plant location.

CEMIG, one of the largest Brazilian power generators and distributors, has completed the feasibility study for the power supply to the mine. The study proposes the layout of the intended transmission line together with estimated capital costs. Further discussions are currently underway to finalise agreements over the future power supply.

Discussions are currently being held with port operators. It is expected that the proposed port operator will be responsible for all port services including the provision of warehouses and stockyards.

Permits and Legal Support, including Environmental Licenses

Applications for environmental and installation licenses were submitted to the relevant environmental and regulatory agencies in July 2013. SAFM expects these licenses to be granted at the beginning of the 2014 calendar year.

An archaeological field survey was concluded on the mine site and the resulting final report was lodged with the National Institute of Brazilian Artistic and Historical Heritage ("IPHAN") in January 2013. SAFM has also completed the registration of landowners along the proposed logistics corridor for the expansion.

Looking ahead

Progress will continue and is expected to accelerate on a number of fronts of the BFS with emphasis on permits and environmental licenses, land tenure and field investigations. Work is also continuing on BFS engineering which includes the mining study and further updating of the previously completed feasibility study on power supply options.

Further metallurgical test work will take place and the report is expected to be finalised within the upcoming 5 months. The process flow sheet will be finalized based on a pellet feed product. The metallurgical test work is to be completed during November 2013 with the finalization of the BFS at the end of April 2014.



2. Production volumes

	June 13 Qtr (tonnes)	Sept 13 Qtr (tonnes)	Movement (tonnes)	Movement (%)
ROM production	320,360	353,065	32,705	10.21
Beneficiated production	130,777	182,500	51,723	39.55
Finished stock at Ponto Verde at end of Quarter	34,630	151,394	116,764	337.18

SAFM posted record Beneficiated production during the quarter, as the plant recovered from its previous production difficulties. The attainment of this level was impressive, especially considering the closure of its plant for a week as part of its recent refurbishment.

SAFM has successfully addressed its water reticulation problems during the past quarter coupled with the refurbishment program that was implemented, has resulted in record monthly production being recorded in October 2013.

3. Sales volumes

	June 13 Qtr (tonnes)	Sept 13 Qtr (tonnes)	Movement (tonnes)	Movement (%)
Sinter Feed	29,063	-	(29,063)	(100.00)
Lump	37,315	22,095	(15,220)	(40.79)
Concentrate	47,041	43,645	(3,396)	(7.22)
Total sales of Beneficiated product	113,419	65,740	(47,679)	(42.04)

Sales of beneficiated products decreased by 42% during the September 2013 quarter to 65,740 tonnes. This was due to lower Sinter Feed grade experienced as a result of a section of low grade ore being mined, as well as the temporary non-availability of trucks to deliver product to customers.

On 2 September 2013, SAFM entered into an offtake agreement with Vale for the supply of 300,000 tonnes of concentrate and 170,000 tonnes of Sinter Feed for the period up to 31 December 2014 at market related prices. Vale completed a number of safety and compliance procedures for its truck drivers which resulted in a delay in the expected commencement of deliveries. Deliveries commenced in the current quarter and it is expected that SAFM will reduce its stockpiles to normalised levels by 31 December 2013.

Average weighted net selling prices increased by 14%, largely due to a 5% average increase in the net selling price for its Concentrate product over the quarter, and a higher weighted proportion of Concentrate sales.

4. Safety and Environment

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



5. Cash Flow from Operations

SAFM recorded a negative net operating cash flow from operations of \$4.3 million for the September 2013 quarter. The Company's capital projects amounted to cash expenditure of \$1 million, consisting predominantly of the upgrade of its plant. During the period, SAFM received US\$15 million from Deutsche Bank, resulting in a cash balance at the end of the quarter of \$10.4 million.

For more information:

South American Ferro Metals Limited

Stephen Turner (CEO)

Ph: +61 2 8298-2004 or +61 (0) 418 440 844.

About South American Ferro Metals Limited:

South American Ferro Metals Limited owns 100% of the mineral rights and property comprising 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 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