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ASX Announcement

ASX Code: SFZ

SAFM ENTERS INTO MEMORANDUM OF UNDERSTANDING ON ADJACENT PROPERTY

South American Ferro Metals Limited (ASX: SFZ) ("SAFM" or the "Company") is pleased to announce that it has 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 regarding a possible agreement between the parties allowing 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 MOU allows SAFM to use Drill Hole Survey Data from this property in order to build a new and enlarged block model for the possible expansion of the SAFM Ponto Verde mine. SAFM is currently re-evaluating the overall scope of its current Bankable Feasibility Study ("BFS") in light of this additional information with a view to enlarging the initial reserve for mining.

SAFM's Managing Director, Stephen Turner commented:

"This MOU marks an important milestone for the Company's development. The expectation is that SAFM may be able to expand its Mineral Resource in the region of Sapecado Sul. 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. In our view, the project is expected to have significant advantages for both SAFM and its neighbour by aiming at the optimisation of the extraction of ore from the deposit which overlays both parties' tenements. SAFM looks forward to working on the development of this new and enlarged project."

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 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. The BFS is expected to be completed by the third quarter of 2014.

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.

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