

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 DECEMBER 2014

Highlights:

- **Record quarterly beneficiated production.**
- **Discussions with the adjacent property owner progressing to plan.**
- **Progress on 3 Mtpa interim domestic expansion.**
- **Advanced discussions regarding refinancing of Deutsche debt facility.**

SAFM's Managing Director, Stephen Turner, commented:

"The decline in iron ore prices has placed significant pressure on SAFM's operating margins. SAFM has responded by implementing cost reduction initiatives that have reduced unit production costs by 14% over the past quarter. In addition, SAFM is progressing with its plans to pursue its 3MTPA expansion and is making steady progress in its agreement discussions with the adjacent property owner to mine the ore body located on the eastern side of its tenement.

Despite these positive steps, the cash generated from operations is not able to generate sufficient cash to repay SAFM's US\$15 million obligation by its maturity on 25 July 2015. SAFM is currently working on a refinancing proposal with interested parties aimed at structuring an agreement to repay Deutsche Bank in the near future."

South American Ferro Metals Limited (ASX: SFZ) ("SAFM" or the "Company") provides the following commentary for the three months ended 31 December 2014, to be read in conjunction with Appendix 5B.

1. Agreement with the owners of the adjacent property

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. Significant work regarding the estimates of resource size and layout has been performed to date. This will form the basis for negotiations towards an agreement 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.

During the December 2014 quarter, agreement was reached with the adjacent property owner on the proposed design of the pit shell. Further optimisation work on the design is continuing.

2. Expansion Licence

SAFM has submitted an Expansion licence application to SUPRAM, the regulatory environmental agency in Minas Gerais, to increase its annual ROM production licence from 1.5 Mtpa to 8 Mtpa. The granting of this licence was delayed as a result of a study on the local flora and vegetation suppression in the area undertaken by SUPRAM.

In October 2014, SUPRAM resolved to separate the study from the licensing evaluation and has referred the matter to the IEF (State Forest Institute) to define the new rules surrounding compensation for vegetal suppression. SAFM is currently working to comply with the new IEF



requirements by the end of February 2015, and aims to submit its compliance plan for approval to the IEF in March 2015. Once complete, SAFM will then resubmit its Expansion Licence to SUPRAM public hearing for approval.

3. Expansion project

The Company is progressing with its plan to double ROM production to 3Mtpa and thereby significantly reduce its unit cost of production.

SAFM has made the following progress during the quarter:

- Obtaining of supplier quotes for more than 60% of its capital requirements.
- Preparation of compliance documentation to achieve eligibility for full state subsidised finance of all equipment.
- Completion of negotiations with the new primary plant suppliers, including full funding term sheet received from Brazilian Development Bank on favourable interest and repayment terms.
- Development of the mining plan for 3Mtpa ROM per annum.
- Completion of Power Supply Design by CEMIG (Minas Gerais State Grid Power Supplier).

4. Production volumes

	Sept 14 Qtr (tonnes)	Dec 14 Qtr (tonnes)	Movement (tonnes)	Movement (%)
ROM production	415,252	510,406	95,154	23%
Beneficiated production	245,458	253,595	8,137	3%
Finished stock at end of Quarter	37,391	61,603	24,212	65%

The record quarterly production for the quarter to December 2014 is due to the installation of a Low Intensity Magnetic Separator in Concentrator One. The introduction of the Separator has increased mass recovery and reduced unit cost to A\$20.87 per tonne during the quarter (September 2014 quarter: A\$24.14).

5. Sales volumes

	Sept 14 Qtr (tonnes)	Dec 14 Qtr (tonnes)	Movement (tonnes)	Movement (%)
Sinter Feed	32,053	1,039	(31,014)	(97%)
Lump	52,541	59,621	7,080	13%
Concentrate	65,104	52,714	(12,390)	(19%)
Blend	68,678	116,008	47,330	69%
Total sales of Beneficiated product	218,376	229,382	11,006	5%

During the quarter, SAFM's average weighted selling price decreased to \$27.08 per tonne. In an aim to realise higher prices, SAFM is blending its Sinter and Concentrate products for sale to its customer base. Total sales volumes increased by 5% during the December 2014 quarter and an overall 30% compared to the 2013 calendar year.

6. Refinancing of Deutsche loan

Due to the decline in the iron ore price, SAFM fails to meet its covenant in respect of generating sufficient cash from operations to repay its debt to Deutsche Bank of US\$15 million due by July 2015.



On 24 December 2014, SAFM entered into a waiver Deed with Deutsche Bank which included a proposal to Deutsche Bank to refinance SAFM's current US\$15m debt facility ("refinancing proposal"). In exchange for the waiver, SAFM will accrue additional interest of 2% per annum on the balance of its loan until repayment. In addition, SAFM will issue 20.5 million unlisted share options to Deutsche Bank in February 2015, exercisable at the issue price for shares received by a new investor under the refinancing proposal. If the refinancing proposal is not implemented, the option exercise price will be the lower of 0.5 cent per share or 75% of the closing price of SAFM shares on the trading day immediately prior to the issue date. The period of the new options is 5 years from the date of issue. It is anticipated that the options will be issued under the Company's 15% placement capacity.

7. Share Capital

On 31 December 2014, 22,430,879 listed options with an exercise price of 20 cents per share expired. At 31 December 2014 there were 409,147,659 ordinary shares and 58,587,383 unlisted options on issue.

A total of 20.5 million share options will be issued to Deutsche Bank on the terms and conditions mentioned above.

8. Cost reduction programme

During the quarter, SAFM continued to implement cost reduction measures and efficiency enhancement programs which resulted in production costs reducing to \$19.88 per tonne in December 2014 (September quarter: \$20.87 per tonne). Some of the measures implemented during the quarter included the renegotiation of rate tariffs with the mine contractor and ore transport company, as well as a reduction of overhead costs.

9. 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, emergency shutdown equipment and purchasing new safety equipment for electrical staff.

On environmental side, SAFM invested on the recovery of vegetation areas on Aredes Park and signaling of the historic ruins on the same area. Company also invested in a better monitoring control of diesel effluents and on improved the controls of the rejects piles.

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.

10. Cash Flow from Operations

SAFM recorded a net cash outflow from operations of \$638k for the December 2014 quarter. The Company's capital projects utilised cash expenditure of \$348k, relating to the 3 million tonne pa expansion. The Company's cash balance at the end of the quarter was \$727k.

For more information:

South American Ferro Metals Limited

Stephen Turner (Managing Director)

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 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