

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 MARCH 2014

Highlights:

- **Record quarterly sales volumes of 317,046 tonnes of beneficiated product, an increase of 34% from the previous quarter.**
- **Implementation of cost reduction and efficiency programmes aimed at reducing production costs to \$21 per tonne by May 2014.**
- **Significant progress on Bankable Feasibility Study.**

SAFM's Managing Director, Stephen Turner commented:

"Significant progress has been made on the Bankable Feasibility Study during the quarter including the completion of magnetic separation test works and the definition of the water capture system. At the end of the quarter, SAFM collated all final study schedules from the various principal consultants and contractors, with the aim of completing the Study by the third quarter of this year. The company is concurrently evaluating various financing alternatives, involving a combination of debt, equity, state subsidies and prepayment of offtake agreements.

Licence applications have been submitted to the various government authorities and construction approvals are expected to be issued prior to the BFS completion in the third quarter of 2014.

It was pleasing to see the improvements at the mine, with enhanced grades and reduced production costs. The production of higher grades has led to a widening in SAFM's customer base and an increase in sales, thus also resulting in a reduction of stockpiles and an increase in the cash generated from operations.

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

1. Expansion project

Primary developments over the quarter were as follows:

- The necessary metallurgical test work required for the Bankable Feasibility Study ("BFS") is now complete. Variability test work is being finalised in order to verify plant design factors.
- RMC, a Brazilian mining consulting company is completing the Mining Feasibility Study.
- Pipeline routes have been agreed. Hydraulic calculations and equipment sizing have been completed.
- The rail-load terminal design is being finalised by a local company certified by Rail Operator, MRS and anticipated to be completed by June 2014.



- The final environmental licensing strategy was defined. It is anticipated that the installation licences will be granted within the next quarter.
- CEMIG has completed the design of the Power Transmission Line route from grid substation to the SAFM HV switchyard.

The collation of all final study schedules from the various principal consultants and contractors was received at the end of the quarter. The reaching of this milestone in the analysis phase of the project triggers the beginning of the project's financing phase with the evaluation of financing alternatives, including debt, equity, state subsidies and prepayment of offtake.

2. Production volumes

	Dec 13 Qtr (tonnes)	Mar 14 Qtr (tonnes)	Movement (tonnes)	Movement (%)
ROM production	445,759	339,644	(106,115)	(23%)
Beneficiated production	246,190	192,820	(53,370)	(21%)
Finished stock at end of Quarter	160,594	27,990	(132,604)	(82%)

SAFM recorded lower production, due to seasonal rains during the March 2014 quarter, the reconfiguration of mechanical equipment and the implementation of production adjustments aimed at improving product quality.

The grade of all products increased markedly with minimum product specifications achieved for all product categories. This improvement in product quality resulted in an increase in selling prices of all products.

3. Sales volumes

	Dec 13 Qtr (tonnes)	Mar 14 Qtr (tonnes)	Movement (tonnes)	Movement (%)
Sinter Feed	65,006	126,206	61,200	94%
Lump	53,730	80,456	26,726	50%
Concentrate	118,250	110,384	(7,866)	(7%)
Total sales of Beneficiated product	236,986	317,046	80,060	34%

Sales of beneficiated product increased by 34% during the March 2014 quarter to 317,046 tonnes. The high sales volumes resulted in a significant drop in stockpiles. Selling prices increased by an average of 10.6% in the March 2014 quarter reflecting the improvement in product grade referred to above.

4. Cost reduction programme

During the quarter, SAFM continued to implement cost reduction measures and efficiency enhancement programmes. Some of the actions implemented include a reduction in staff numbers and fleet size, stringent cost cutting exercises and a focus on improving mass recovery. The goal of the programmes is to reduce the production unit cost to \$21 per tonne by May 2014.



5. Safety and Environment

SAFM has implemented a series of safety improvements including re-designing the routes of trucks and heavy equipment inside the Ponto Verde Mine site, installing plant barriers and purchasing new safety equipment for employees.

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

6. Cash Flow from Operations

SAFM recorded a positive net operating cash flow from operations of \$2.67 million for the March 2014 quarter. The Company's capital projects utilised cash expenditure of \$3.2 million, mostly related to the settlement of the waste and tailings property and Bankable Feasibility Study. The company's cash balance at the end of the quarter was \$4.1 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 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.

Website: www.safml.com