



ANNUAL GENERAL MEETING
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SAFM
South American Ferro Metals

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BACKGROUND

- November 2010: Commenced production in with 1.5 Mtpa license
- February 2011: Refurbishment of Primary Plant
- May 2011: Introduction of second production shift
- September 2011: Introduction of third production shift
- December 2011: Initial JORC resource of 230 Mt announced
- February 2012: Commencement of BFS for expansion to 8Mtpa ROM
- June 2012: Commissioning of first concentrator
- April 2013: Increase of JORC Resource to 301 Mt
- June 2013: Commissioning of second concentrator

YEAR IN REVIEW

- July 2013 – June 2014: Progress on 8MT BFS
- Oct 2013: Acquisition of Waste & Tailings land
- July 2014: Entered into a MOU with the owners of the property adjacent to the Ponto Verde iron ore project
- Sept 2014: Increase in JORC Mining Resource
- July 2014: Delay in receipt of Expansion Licence
- Sept 2014: 3 MT expansion Plan
- FY2014: Increase in production volumes & decrease in unit production costs
- FY2014: Drop in Iron ore prices

PROGRESS ON 8MT BFS

- SAFM acquired a 100 hectare property south of its Ponto Verde Mine to be used for additional waste & tailings storage.
- Completion of geo-technical studies for waste and tailings areas on both, this property, and SAFM's tenement to the north of its mine.
- Topographical aerial survey completed.
- The Characterisation and Sampling Program Report completed by RMC Mine Services.
- Metallurgical test work completed.
- Finalisation of Variability test work with Gaustec, which validates the process design factors used in the BFS.
- Beneficiation process route defined.
- Plant Layout developed.

PROGRESS ON 8MT BFS CONT.

- Slurry and Water Return Pipelines routes developed.
- Pipelines Systems hydraulic calculations and equipment sizing completed.
- CEMIG completed the Power Supply Study.
- Rail-load terminal conceptual design finalised.
- Capital and operation expenditure, to an order of magnitude, finalised.
- SAFM secured an agreement with the State of Minas Gerais that includes fiscal concessions, assistance with securing licenses and access to low cost financing.
- MOUs have been signed with Infrastructure providers, namely, MRS (rail), and Trafigura (Port) for the provision of necessary infrastructure required for SAFM's expansion. In addition, SAFM is in the final stages of negotiating supply agreements with CEMIG (electricity) and SAAE (water).

INCREASE IN JORC RESOURCE

- JORC Resource has increased by 34%, from 301.1 Mt to 403.71 Mt , which is set out in the following JORC Resource statement

Ponto Verde Iron Ore Project Grade x Tonnage Table – Cut-off Grade Applied: 20% Fe		
Resource Class	Tonnes (Mt)	Fe (%)
Measured	83.82	40.44
Indicated	157.79	41.01
Measured + Indicated	241.61	40.81
Inferred	162.10	39.68

- Resource information used from an additional 12 diamond drill holes and 162 samples from 584.5 metres of trenching.
- The updated Resource has been calculated to an average depth of 102 metres below the surface. However, exploration drilling at depth has highlighted that mineralisation extends to over 320 metres depth.
- Results confirm the continuity of the mineralization
- The Resource increase will have a significant impact on the future reserve estimate.

MOU – 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.
- SAFM believes that a future arrangement will have significant advantages for both SAFM and its neighbour by increasing its pit shell design to access additional ore.
- The operational pit shell design is complete.

DELAY IN RECEIPT OF EXPANSION LICENCE

- SAFM 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 grant of this licence has been delayed due to a study being conducted by SUPRAM of the local flora and vegetation of the area.
- The suspension of licencing affects all projects in Brazil's iron ore quadrilateral that are located in similar vegetation areas.

3 MT PA EXPANSION

- SAFM has devised an interim expansion plan to expand to 3 Mtpa ROM, with the intention of selling its entire product to the domestic iron ore market.
- Discussions are progressing with customers to sign long term supply contracts.
- The domestic expansion is expected to be highly cash generative at current iron ore pricing by significantly reducing production unit costs.
- No requirement for logistics permits and modest capital investment of US\$15 million.
- Expressions of interest to fund the project have been received from four Brazilian Banks.
- It is intended that the Company would proceed with its 8Mtpa expansion once all licencing and permits have been received.

FINANCIAL REVIEW

CONSOLIDATED INCOME STATEMENT (A\$'000)	FY2014 twelve months 30 June 2014	FY2013 twelve months 30 June 2013
<i>Beneficiated Production (tonnes)</i>	853,339	626,134
<i>Beneficiated Sales volumes (tonnes)</i>	835,747	598,202
<i>Weighted average R\$/A\$ exchange rate</i>	0.48	0.48
Sales revenue	29,205	19,591
Cost of goods sold	(23,175)	(12,274)
Gross profit	6,030	7,317
<i>Operating margin</i>	21%	37%
<i>EBITDA</i>	3,069	3,091
Net (loss)/profit before tax	(69)	2,484
Income tax expense	(1,219)	(802)
Net (loss)/profit after tax	(1,288)	1,682
Weighted average number of shares ('000)	409,148	409,148
EPS (A\$ cents per share)	(0.31)	0.41

FINANCIAL REVIEW

CONSOLIDATED BALANCE SHEET (A\$'000)	FY2014	FY2013
	as at 30 June 2014	as at 30 June 2013
Cash and cash equivalents	3,438	411
Trade and other receivables	2,349	1,254
Prepayments	92	217
Inventories	3,280	3,941
Total current assets	9,159	5,823
Exploration and evaluation assets	9,588	4,300
Mining properties	7,439	7,628
Property, plant & equipment	17,647	13,384
Deferred tax asset	257	261
Other non-current assets	1,693	834
Total non-current assets	36,624	26,407
Total assets	45,783	32,230
Trade and other payables	3,507	2,969
Taxation owing	382	657
Interest-bearing loans and borrowings	-	271
Provisions	1,193	995
Total current liabilities	5,082	4,892
Interest-bearing loans and borrowings	15,237	-
Provisions	3,501	4,943
Total non-current liabilities	18,738	4,943
Total liabilities	23,820	9,835
Total shareholders' equity	21,963	22,395

IMPLICATIONS OF DROP IN IRON ORE PRICE

The drop in the Iron ore price has significantly impacted profitability. SAFM has responded by:

- Increasing customer base.
- Significantly reduced production and overhead costs, including reduction of staff numbers, renegotiation of supplier tariffs, amalgamation of power generators on site, reduction of ancillary leased machinery and enhancements to maintenance procedures
- Introduction of new blended product to increase margins.
- Increased production by Installation of Low Intensity Magnetic Separator.
- Opportunity to increase production and margin treating tailings.

SAFM has increased production volumes by 36% to 853,339 tonnes in FY:2014 and reduced production costs from A\$33.64 per tonne in July 2013 to A\$21.90 per tonne in September 2014.

At current iron ore prices, the company is not expected to return to profitability in FY:2015.

REFINANCING DEBT FACILITY

- The repayment date of the current bank debt is 31 July 2014
- SAFM is in discussions with its Bank regarding the debt facility.
- SAFM is progressing various options to refinance the facility.
- These options could include raising equity. Any significant equity issue would be subject to any necessary shareholder approval.

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