

## QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2014

### Highlights:

- **Increase in JORC Resource from 301.1 Mt to 403.71 Mt**
- **Joint venture discussions progressing to plan.**
- **Pursuing 3 Mtpa interim domestic expansion**

SAFM's Managing Director, Stephen Turner commented:

"The decline in iron ore prices has had a significant impact on SAFM's revenue, given the correlation of prices for Concentrate and Sinter to the International iron ore price. The market for our Lump product has remained stable, with the company experiencing ongoing success in increasing its customer base for this product. The Company continues to focus on reducing costs in order to maintain a profitable gross margin.

Delays in obtaining ancillary logistics permits, coupled with the current downturn in capital markets, has prompted SAFM to pursue a domestic expansion strategy of 3 Mtpa to meet demand in the domestic market in Brazil.

SAFM believes the expansion will be cash generative at low iron ore prices, given the project's modest capital requirement and anticipated decrease in unit production cost. To date, expressions of interest have been received from four Brazilian banks to provide funding for this expansion."

South American Ferro Metals Limited (ASX: SFZ) ("SAFM" or the "Company") provides the following commentary for the three months ended 30 September 2014, to be read in conjunction with Appendix 5B.

### 1. Increase in Mineral Resource

As part of the joint venture with the adjoining landowner, SAFM obtained further resource information from an additional 12 diamond drill holes and 162 samples from 584.5 metres of trenching previously done by our Joint Venture Partner. The results confirm the continuity of the mineralization, and increased the size of the Resource by 34%, from 301.1 Mt to 403.71 Mt, as shown in the JORC Resource statement below:

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
<b>Measured + Indicated</b>	<b>241.61</b>	<b>40.81</b>
Inferred	162.10	39.68

The majority of 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. Based on this, SAFM will plan a drilling program to target the core of the deposit at depth which will have the potential to further increase the size of the deposit.



## **2. Joint Venture**

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.

The MOU sets out, on a non-binding basis, the fundamentals for the negotiation towards an agreement that will allow 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.

SAFM believes that the 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 is currently being developed.

## **3. Expansion project**

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 grant of this licence has been delayed due to a study being conducted by SUPRAM of the local flora and vegetation suppression of the area. The suspension of licencing affects all projects in Brazil’s iron ore quadrilateral. The Agency has not provided guidance as to when the study will be completed.

Notwithstanding the significant progress made on the BFS to date, SAFM is anticipating a delay in the completion of the BFS for a number of reasons, including re-scoping brought about by the above mentioned joint venture discussions and a delay in receipt of the expansion and ancillary logistics permits.

In response to these delays and the resulting deferral in the BFS completion date, SAFM has devised an alternative expansion plan to be executed in the short-medium term which capitalises on current trends and domestic market conditions. The Company has assessed the strategy to expand to 3 Mtpa ROM, a lower target than the BFS, but one which would allow the company to be quick to market, with the intention of selling its entire product to the domestic iron ore market where there is currently high demand.

This would eliminate the need for ancillary logistics permits and large capital investment in the short-medium term, whilst making SAFM highly cash generative. It is intended that the Company would proceed with its 8Mtpa expansion once all licencing and permits have been received.

SAFM has progressed the following in support of this 3 Mtpa strategy:

- Development of a new and enlarged block model for the expansion of the SAFM Ponto Verde mine.
- Execution of Mine Geotechnical studies to design a conceptual pit-shell. These studies also defined the mineral reserve’s rock mass strength, geo-mechanical features, and structural discontinuity characteristics.
- Development of a production plan based on the metallurgical test work results and the reserve estimate.
- Design of the crushing circuit and concentration process flow taking into consideration the short-medium term production plan requirements.
- Preparation of a detailed capital assessment of the plant and equipment required for the expansion, including obtaining supplier quotes for 50% of the capital requirements and ensuring that the equipment is eligible for state subsidised finance.
- Projection of the local demand for beneficiated ore based on a comprehensive analysis of the domestic market, including preliminary negotiations towards future supply agreements.
- Preparation of an operational expenditure study based on the expected production plan, applying current contracts and costs structures.
- Preparation of a detailed financial model, applying a conservative contingency margin for capital expenditure of 25%.
- Definition of the expansion’s implementation methodology based on a target construction period of 12 months. This includes the outlining of all required tasks and classifying them into 5 parallel project streams.



- Expressions of interest to fund the project have been received by four Brazilian Banks.

#### 4. Production volumes

	June 14 Qtr (tonnes)	Sept 14 Qtr (tonnes)	Movement (tonnes)	Movement (%)
ROM production	383,016	415,252	32,236	8%
Beneficiated production	215,113	245,458	30,345	14%
Finished stock at end of Quarter	14,193	37,391	23,198	163%

The higher production for the quarter is due to the recent 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 (June quarter: A\$24.14).

#### 5. Sales volumes

	June 14 Qtr (tonnes)	Sept 14 Qtr (tonnes)	Movement (tonnes)	Movement (%)
Sinter Feed	79,454	32,053	(47,901)	(60%)
Lump	53,420	52,541	(879)	(2%)
Concentrate	83,101	65,104	(17,997)	(22%)
Blend	-	68,678	68,678	100%
Total sales of Beneficiated product	215,975	218,376	2,401	1%

In order to realise higher prices, SAFM is currently blending its Sinter and Concentrate products to create a new product which it is selling to its customer base. The blended product resulted in an overall increase in net selling price of 33% compared to the combined ratio of Sinter and Concentrate products.

Difficulties were experienced in product delivery during July 2014 due to the World Cup taking place in Brazil and problems experienced at Namisa's Port. SAFM continues to increase its Lump customer base.

#### 6. Cost reduction programme

During the quarter, SAFM continued to implement cost reduction measures and efficiency enhancement programmes. Some of the measures implemented during the quarter include reduction of overheads and renegotiation of supplier tariffs.

#### 7. 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 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 time lost due to injuries during the quarter.



## **8. Cash Flow from Operations**

SAFM recorded a net operating cash outflow from operations of \$1.06 million for the September 2014 quarter. The Company's capital projects utilised cash expenditure of \$0.55 million, mostly related to the BFS. The Company's cash balance at the end of the quarter was \$1.78 million.

For more information:

### **South American Ferro Metals Limited**

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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 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.

### **Competent persons**

Information in this statement that relates to the JORC resource at Ponto Verde is based on information compiled by Mr Bernardo Hurta de C Viana (Phase I) and Mr Porfirio Cabaleiro (Phase II) both of Coffey Mining (Brazil). Both are Members of the Australasian Institute of Mining and Metallurgy. Mr Viana and Mr Cabaleiro have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activities which they have each undertaken to qualify as a "Competent Person" as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore reserves (the JORC Code). Mr Viana and Mr Cabaleiro have consented to the inclusion of their information in this report, in the form and context in which they appear.

Website: [www.safml.com](http://www.safml.com)