



28 January 2011

ASX Announcement

ASX Code: SFZ

## **ASX ANNOUNCEMENT**

### **QUARTERLY ACTIVITIES REPORT FOR THE THREE MONTHS ENDED 31 DECEMBER 2010**

#### **HIGHLIGHTS:**

- **Early start-up of iron ore production with accelerated cashflow for SAFM**
- **Mine production at Ponto Verde commenced in November 2010 with 663,006 tonnes of iron ore produced by 31 December 2010**
- **Processing plant being prepared for commissioning in February 2011**
- **ROM production of 125,000 tonnes per month planned for calendar 2011**
- **Planning underway for exploration to confirm JORC-compliant resource**
- **Key operational and support staff recruited**
- **Prospectus to raise \$15million was oversubscribed**

The Board of South American Ferro Metals Limited (ASX: SFZ) ("SAFM" or "The Company") is pleased to provide the following commentary, to be read in conjunction with Appendix 5B.

#### **Ponto Verde Iron Ore Project, Brazil**

SAFM owns 100% of the mineral rights and property of the Ponto Verde mine, located in the heart of the Iron Ore Quadrilateral, some 55 kilometres from the town of Belo Horizonte in Minas Gerais State, Southern Brazil.

#### **LGA Contract**

In November 2010, SAFM negotiated and concluded a short-term supply agreement with LGA Mineração e Siderurgia ("LGA"), an iron ore processor situated 56 kilometres south of the Company's Ponto Verde mine (PVM). The contract incorporated the following salient terms and conditions:

- SAFM would allow LGA to use its outstanding ROM allocation under its current mining license for the remaining duration of the 2010 calendar year;
- LGA would be liable for all production costs including all taxes under the contract;
- Sales of ROM ore amounting to U\$2.7 million (A\$2.8 million) enabled SAFM to cover its fixed costs and report a gross profit;



- Ore produced within the 2010 calendar year, was sold to LGA. This ore is currently stockpiled at the PVM site and will be delivered to LGA throughout 2011. As all sales were invoiced at December 31<sup>st</sup>, 2010 the title and risks of the ore have been transferred to LGA and characterize the production within 2010 License year.
- All tax and costs accruing on the pre-sales would be payable by LGA as advancement of purchases.

Following the grant of SAFM's Operation License, LGA commenced mining at the PVM site for completion by 31 December 2010, being the contract expiry date.



*Fig. 1 PVM open pit operations at commencement*

SAFM Managing Director Stephen Fabian said:

*“The December Quarter was a successful one for SAFM, a period in which we achieved first iron ore production from Ponto Verde through a relationship with LGA that was on beneficial terms, and allowed us to meet the terms of our mining licence. Our focus now is on start-up of our own processing plant, and on commencing our exploration programme, which should allow us to define a JORC-compliant resource at the project.”*



The production results over this period were as follows:

ROM production:	663,006 tonnes
ROM sold until 31 December 2010	100,108 tonnes
ROM stockpiled at Ponto Verde for future deliveries:	562,898 tonnes

## **Ponto Verde Mine Commissioning**

### **1. Negotiation of Contracts**

Following the success of the listing on the ASX, funds were transferred to SAFM Brazil in late November 2010 to provide the necessary working capital funds to commence operations. SAFM proceeded to obtain quotations and negotiate contracts in order to start by January 2011.

The following is a summary of the key contracts negotiated:

- Mine equipment and excavation contracts: Following a review of 15 mining companies, Cristal Máquinas e Transporte Ltda. (“Cristal”) was selected as the preferred mining contractor. Cristal currently holds a contract with a large NAMISA operation close to the PVM operations.
- Plant adjustments: The Crushing and Screening plant had been refurbished in 2008. Additional plant installations were necessary to connect and supply water for product washing to enhance the iron ore quality. This has been completed, except for the supply of pumps which has been delayed due to recent flooding in the region.
- Weighbridge: A requirement in the State Government policy is for mining companies to install a high-standard weighbridge. After a detailed technical evaluation, SAFM has acquired a Toledo weighbridge. The equipment is scheduled to be delivered in February 2011 and the civil works have commenced in anticipation of its delivery.
- Quality assurance consultancy: SAFM has engaged a reputable Quality Assurance consultant, Qualiass Consultoria Empresarial Ltda. (“Qualiass”) to produce a quality assurance manual based on ISO terms. The manual will provide specifications of sampling procedures, production tracking and product specification, and will form the basis for SAFM’s initial production control, and in turn set standards for its quality specification. Product quality specifications are a key factor for defining price and quantity benchmarks.
- Labor Safety and Health: SAFM has engaged a qualified company, Matrin Segurança e Medicina do Trabalho Ltda. (“Matrin”), to support its requirements regarding health and safety at the mine. Matrin is currently finalizing the evaluation of SAFM’s requirements and, upon implementation, SAFM will be eligible for listing with the local labour union.

- Power: SAFM has hired a power generator of 405 KVA (440 KVA at peak) in order to run the processing plant. Three companies presented offers: Geraforça Locação e Comércio de Equipamentos Ltda. (“Geraforça”), Orguel and Meta. Geraforça negotiated the best price and terms and offered the best equipment, in terms of condition and quality. SAFM visited the suppliers for a technical inspection concerning condition, environmental compliance and noise level.



*Fig. 2 Operations Control Tower*

## **2. Mine production**

ROM production of 125,000 tonnes per month is planned for calendar 2011 with approximately 200,000 tonnes planned for the March 2011 Quarter. At present, ROM ore is being stockpiled by SAFM to provide necessary plant feed once the processing plant is commissioned.

## **3. Commissioning of processing plant**

SAFM is currently preparing for the commissioning of the PVM processing plant and the mine operation and supporting facilities have been equipped to handle production of upgraded saleable small lump and sinter feed products. These products will be sold to the local pig iron and steel industry. Following a delay in the delivery of pumping equipment caused by recent heavy rain, production is expected to build up to a rate of 60,000 tonnes per month commencing from mid-February 2011.

#### 4. Planned construction of Concentration plant

SAFM is planning construction of a concentration plant to recover fine high-grade materials and produce concentrate. It is anticipated that this concentrate will be sold to local pellet plants (VALE). The installation of the concentration plant is planned to be completed in the June 2011 quarter, at which stage total saleable product to output will be 80,000 tonnes per month.

#### 5. Exploration programme

Planning is currently being undertaken for SAFM's future exploration programme at Ponto Verde. This programme is necessary in order for the Company to confirm the quantity of ore resources for future mine development and expansion. The tender process to appoint drilling contractors has commenced, but has been delayed due to the wet weather. Initial investigations include the reassessment of previous drilling results and the re-establishment of the core and duplicate sample storage data bases. The records of the current ROM production will also be taken into account.

SAFM has commenced discussions with VALE to confirm the location of the common boundary between their adjoining mining tenements.



*Fig. 3 Crushing and screening plant and ROM ore stockpile*





**6. Sale contract negotiations**

SAFM has commenced sales discussions with VALE and some pig iron producers in the region. It is expected that the customer base will increase in line with the expansion of its products.

**7. Recruitment of key personnel**

SAFM is recruiting key management and technical personnel for its quality assurance, inventory, environmental control and mine divisions. Additional staff will be hired over the next few months.



*Fig. 4 Processing plant control room*

**Corporate Activity**

The Company completed a recent capital raising for \$15 million through the issue of 41,666,667 shares at \$0.36 per share. The offer was oversubscribed and the shares relisted on the Australian Securities Exchange on 12 November 2010.

*-Ends-*

For more information:

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*Competent Persons: Aspects of this report on the South American Ferro metals Limited – Ponto Verde Project and Three Sisters Project that relate to Mineralisation, Mineral Resources or Ore Reserves are based on information compiled by persons who were Fellows or Members of the Australian Institute of Mining and Metallurgy and/or the Australian Institute of Geoscientists, and have sufficient relevant experience of the activity undertaken and of the mineralisation style and type of deposit described. They qualify as Competent Persons as defined in the 2004 Edition of the “Australasian Code of Reporting of Identified Mineral Resources and Ore Reserves” (JORC Code). The above statement fairly reflects the reports prepared by these Competent Persons and has been overviewed by T V Willsteed, BE (Min) Hons, BA FAusIMM as a Competent Person for South American Ferro Metals Limited. Mr Willsteed consents to the inclusion in this report of these matters based on their information in the form and context in which it appears.*

