

## QUARTERLY ACTIVITIES REPORT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2012

### Highlights:

- No reportable accidents or environmental incidents for the quarter, maintaining SAFM's exemplary safety record since start-up.
- ROM production totalled 372,630 tonnes, an increase of 6% from the previous quarter.
- Beneficiated production for the September 2012 Quarter decreased by 5% to 142,836 tonnes, owing to production difficulties that have subsequently been rectified.
- The civil works on the Stage II Concentrator commenced during the quarter with production expected to commence in April 2013.
- Continued progress of the Definitive Feasibility Study for its first stage expansion plan to 8Mtpa.
- Further site and operational improvements, including the construction of an on-site laboratory and completion of the bridge upgrades.
- The Phase II Resource Definition Drilling Program was completed during the quarter, with an updated JORC Resource Report expected in the current quarter.

South American Ferro Metals Limited (ASX: SFZ) ("SAFM" or the "Company"), the only ASX-listed pure play iron ore company currently producing in South America, provides the following commentary for the three months ended 30 September 2012, to be read in conjunction with the Appendix 5B.

SAFM Chief Executive Officer and Executive Director Philip Hopkins said:

*"The Company experienced temporary interruptions in its production during the month of September due to suspended solids in the water reticulation system, as well as the replacement of a worn out screen deck. These issues were immediately addressed and fully rectified in October 2012, thereby returning to normalised production levels.*

*SAFM continued its strategy to unlock value with the completion of the Resource Definition programme which will see us announce an updated JORC Resource Report during the current quarter and the commencement of the Stage II Concentrator project."*



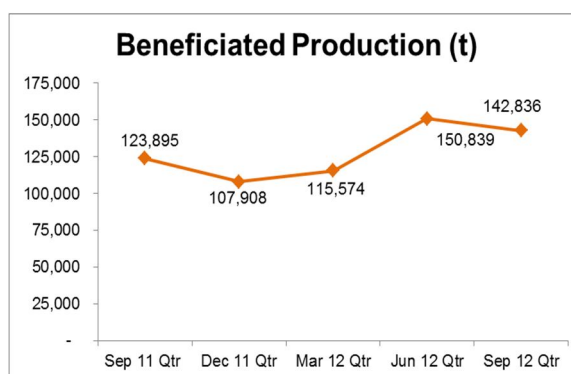
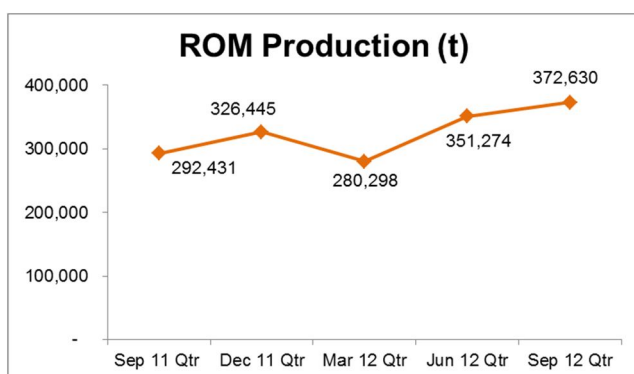
## 1. Safety and Environment

SAFM's safety and environmental performance underpins the company's licence to operate and grow in Brazil. There were no reportable accidents or environmental incidents during the September 2012 Quarter, continuing SAFM's unblemished record since the commencement of mining in November 2010.

## 2. Production and sales volumes

### Production volumes

(tonnes)	Sept 11 Qtr	Dec 11 Qtr	Mar 12 Qtr	Jun 12 Qtr	FY:2012	Sept 12 Qtr
ROM production	292,431	326,445	280,298	351,274	1,250,448	372,630
Beneficiated production	123,895	107,908	115,574	150,839	498,216	142,836
Finished stock at Ponto Verde at end of Quarter	42,390	1,866	5,459	6,777	6,777	42,244



### Sales volumes

(tonnes)	Sep 11 Qtr	Dec 11 Qtr	Mar 12 Qtr	Jun 12 Qtr	FY:2012	Sept 12 Qtr
Sales volumes – Sinter Feed	86,445	89,269	71,228	102,786	349,728	62,875
Sales volumes – Lump	40,321	37,426	40,753	55,150	173,650	44,494
Sales of Beneficiated product	126,766	126,695	111,981	157,936	523,378	107,368
Sales volumes – Undersize	-	70,234	56,870	102,884	229,988	7,734
Sales volumes – ROM	-	43,741	6,132	-	49,873	-

## 3. Production Update

Lump and Sinter Feed production for the quarter were impacted by two unplanned events namely the existence of "dirty" (suspended solids) in the process water, as well as the replacement of the plants screen deck. At the end of the Quarter the remedial action required for each item was well underway with full remediation completed by the second week in October 2012. Whilst challenging, SAFM has been able to produce beneficiated tonnes albeit at a slightly lower level than the prior quarter.

## 4. Sales Update

Sales volumes for the quarter were lower due to a decrease in production volumes for Lump and Sinter Feed, as well as a delay in final negotiations for Concentrate sales. Sales of Concentrate product commenced in October 2012.



## **5. Stage I Concentrator**

The Stage I Concentrator has been achieving a steady ramp up in its production since its commissioning in June 2012 and is scheduled to reach its full design capacity production of 720 tpd by the end of October 2012.

## **6. Stage II Concentrator**

There has been a very positive start to the construction of the Stage II Concentrator. The foundations of the Concentrator have been poured and Feeder system is well advanced in its construction. The project is on schedule for commissioning in April of 2013, with a short payback of the investment expected. SAFM is also currently evaluating the longer-term potential to toll treat external ore fines from surrounding mines by utilising the additional capacity provided by this plant.

## **7. Definitive Feasibility Study Update**

The Definitive Feasibility Study (DFS) for the mine site expansion to 8 Mtpa has progressed with more positive than expected preliminary outcomes in the transport logistics study. As a result of this study, a scope change was approved for additional engineering designs. This DFS enhancement will materially improve the economics of this 8 Mtpa expansion by providing SAFM with additional transport options. Due to this additional scope of work, the completion of the DFS is scheduled for the end of July 2013.

## **8. On Site Improvements**

General site and operational improvements continued with the ongoing construction of the on-site assay laboratories and final southern bridge upgrade. The laboratory when completed will provide the Company with a three hour turn-around on assays from the mine and finished product areas.

## **9. Cash Flow from Operations**

SAFM generated cash flow from operations of \$552,000 for the September 2012 quarter. These funds combined with cash on hand continues to fund SAFM's continued capital and exploration programme which totalled \$1.6 million for the quarter. Cash on hand at 30 September 2012 was \$4.2 million, with no external debt.

## **10. Annual General Meeting**

The Annual General Meeting will be held on Friday, 16 November 2012 at 10:00 am (EDST) at Baker Mackenzie Level 27, AMP Centre, 50 Bridge Street, Sydney NSW.

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For more information:

<b>South American Ferro Metals Limited</b>
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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, located in the heart of the Iron Ore Quadrilateral in Brazil, 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 Ponto Verde Project is located proximate to established mining operations, iron and steel plants and existing infrastructure.

**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](http://www.safml.com)