



Chairman's report

Ladies and Gentlemen,

South American Ferro Metals Limited has enjoyed a very successful year with the attainment of a number of important key milestones. These include:

- Progression to full licensed production capacity of 1.5 million tonnes per annum at its Ponto Verde Mine project in Minas Gerais, Brazil.
- An unblemished safety and environmental record since the commencement of mining in November 2010, with no reportable incidents recorded. SAFM's safety and environmental performance underpins the company's licence to operate and grow in Brazil.
- The announcement of a maiden JORC resource of 230 million tonnes at 44.5% iron, including a indicated component of 60.6 million tonnes at 41.6% and an Inferred component of 170 million tonnes at 45.55%,¹ and
- The Commencement of the Definite Feasibility Study.

SAFM's operations produce Sinter Feed and Small Lump iron ore from its crushing and screening plant. These products are sold to local independent pig iron producers, as well as regional major iron ore and steel producers, including Vale, CSN/NAMISA and Gerdau.

Fine ore tailings from the plant were stockpiled during the year and are currently being fed into the Stage 1 magnetic concentration plant which was recently completed to produce a high grade product suitable for pellet and steel production. A further Stage 2 concentration stage is under construction to recover additional high grade fines with low contaminant content using high intensity magnetic separation. This project is expected to be completed in April 2013. Once completed, overall mass recovery of 79% is expected which will deliver in excess of 1 mtpa of total saleable products.

For the FY2012, 1.25 million tonnes of ROM ore was mined with maximum plant throughput of more than 144,000 tonnes achieved in May 2012. Output decreased during the exceptional rainy season recorded between November 2011 and March 2012. During FY2012, sales of Small Lump and Sinter Feed products totalled 523,379 tonnes and an initial output of Concentrate was achieved and stockpiled for sale which commenced in October 2012. Sales of ROM ore and of unprocessed fines continued during the year on a small scale to nearby operations.

The project total revenue was \$17.6 million and a net cash flow from operations of \$4.1 million was achieved, before providing for capital expenditure of \$5.1 million, which included plant and infrastructure refurbishment, concentrator construction and resource drilling. The continuing strong cash flow is expected to support the ongoing development in FY2013.

The current activities at Ponto Verde includes the construction of the second stage Concentrator, and the continuation of the Company's definitive feasibility study to expand production to 8 mtpa of ROM with expected production of up to 6 mtpa of high grade

¹ Coffey Mining, December 2011 – see SAFM ASX announcement dated 23 December 2011

saleable product. Additional engineering design has been approved to provide for optimum power supply and product transportation options. The study is planned for completion in July 2013.

In addition to the Concentrator development and the longer term expansion plans, the Ponto Verde site has undergone a continuous improvement programme. An additional cone crusher in the processing facility has enabled further plant throughput assistance, while upgrades to site facilities have included an upgraded access bridge and a site-based laboratory for quality control and production control.

Since commencing production, SAFM has achieved a number of important goals including the recruitment of senior staff, the completion of resource drilling and plant design and enhanced site infrastructure. Supervision of the mining operations, ore processing and road and environmental conditions has been established to high operational standards. During this time, Ponto Verde's production capability has been confirmed and progressed to expanded targets.

Philip Hopkins as Chief Executive Officer and Executive Director has implemented progressive management systems, spearheaded the expansion and strengthening of SAFM's Leadership Team and initiated enhanced safety and industrial relations performance. The management team has achieved our targeted goals, utilising the initial shareholders' funds raised at listing and supplemented by operating cash flow. Unfortunately, Philip has recently announced his resignation, but will remain with the company until the completion of an orderly transition to ongoing management.

The Board of SAFM was reconstructed during the year with Philip Re and Paul Lloyd, who were founding directors from SAFM's 2010 listing, retiring and Wayne Kernaghan appointed as an independent non-executive director. The Board is very grateful to Philip and Paul for their support and encouragement during the start-up period.

SAFM's management team will plan with confidence the future activities and production targets for Ponto Verde. We expect to further enhance future growth and value with investment opportunities that are now available due to the company's solid platform, growth and operational and management performance.

I would like to again record the enthusiastic continuing efforts of SAFM's management, staff and directors and thank them for their efforts which have resulted in SAFM continuing its successful and strong performance as a growing listed iron ore producer.

Yours Faithfully,

Terry Willstead