

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 MARCH 2013

Highlights:

- **Mine expansion feasibility study progressing with design criteria and flow chart completed and plant layout and equipment selection being addressed.**
- **Logistics MOU signed for product rail haulage to port.**
- **Update of mineralised resources within the extended pit outline completed.**
- **Second Concentrator in the Ponto Verde Mine beneficiation plant completed on schedule and within budget on 12 April 2013. The second Concentrator targets additional concentrate production of between 20,000 and 24,000 tonnes per month at a grade of approximately 64% Fe.**
- **On-site laboratory completed.**
- **Record production volumes for the quarter.**
- **Record sales of beneficiated product for the quarter.**
- **No reportable accidents or environmental incidents, maintaining SAFM's safety record.**

South American Ferro Metals Limited (ASX: SFZ) ("SAFM" or the "Company") provides the following commentary for the three months ended 31 March 2013, to be read in conjunction with Appendix 5B.

SAFM's Chief Executive Officer, Stephen Turner commented:

"Today's announcement records the accomplishment of two significant milestones at the Ponto Verde Mine operation being the completed construction of both the second Concentrator and the on-site laboratory. More importantly the expansion feasibility study is progressing well with preliminary capital expenditure estimates anticipated to be reduced, with ore resource estimates finalised, and a product transport arrangement negotiated to support the expansion studies.

The additional product from the new Concentrator will yield an increase of 33% in anticipated product volumes for the Group at a low incremental cost. This will result in a significant decrease in overall unit costs, thus materially improving SAFM's operating cash flow leading to its 8 Mt per annum expansion. The consistent, increasing profitability of the Company underwrites its expansion and the feasibility costs.

We value our excellent relationship with rail provider, MRS as evidenced in our recent MOU.

The new laboratory provides SAFM with the critical capability of obtaining quick turnarounds of assay results for its products as well as being able to assist in the design of its enlarged pit.

SAFM continues to focus on its expansion project and we are pleased with the progress of its bankable feasibility study."



1. Expansion project

Following scoping studies completed by SAFM management, LogiCamms Pty Limited were engaged to design a plant with ROM capacity of 8 Mtpa (dry tonnes) to produce high grade iron ore Concentrate (65.5% Fe) for the export market. To date, studies confirm the technical viability of using a standard Brazilian design dry plant and WHIMS concentration plant. The plant is being designed to produce a final Concentrate product measuring -0.6 mm at a grade of 65.5% Fe.

The plant design concepts and criteria have been confirmed from the current Ponto Verde operations.

Project infrastructure consisting of minerals processing facilities as well as support infrastructure such as water and electricity supplies, access roads, workshops, warehouses, laboratories and administration buildings are also being designed.

The current study proposes the concentrates join an overland conveyor system which transports them to an area adjacent to a stockpile proposed by the MRS rail operator, approximately 15 km from the plant site, prior to loading onto train by front end loader.

Doubling production to a feed rate of 16 Mtpa throughput will be considered at a later stage and should be achievable by duplication of the current proposed plant. The process flow sheets are being developed from the knowledge of the ore body derived from the recently updated resource study process test work and the Company's current production experience.

The feasibility study is progressing to the Company's satisfaction with the expectation that capital expenditure for the expansion will be below that initially anticipated. The application for approval of the proposed expansion is expected to be submitted to the government agencies during the June 2013 Quarter.

2. Memorandum of Understanding executed with rail corporation, MRS Logistica SA ("MRS")

SAFM has entered into a memorandum of understanding with MRS to develop a logistics solution for the rail transportation of iron ore from SAFM's Ponto Verde mine to the port terminals at Baia de Sepitiba in the state of Rio de Janeiro, approximately 400 km from the Ponto Verde mine.

SAFM plans to introduce its iron ore product to the export market upon the development of the infrastructure to deliver its production to the rail system and the completion of its 8 Mtpa expansion program, anticipated in 2015. The rail transportation of the product will utilise existing MRS infrastructure for the rail and unloading of iron ore products, as well as incorporating the development of a new loading terminal.

3. Completion of Second Stage Concentrator

SAFM successfully completed construction of its second concentrator project at the Ponto Verde Mine on schedule and within budget.

The second Concentrator is designed to process the fines material that is currently being discharged from the existing beneficiation and medium intensity magnetic separation Concentrator plant. It uses the Wet High Intensity Magnetic Separation (WHIMS) process, wherein a magnetised steel matrix ring attracts iron ore particles found on fine tailings fed into the plant. The targeted product grade and quality will be similar to that of the current Concentrate product, which has met strong demand in the market.

To date, fines material discharged from the first Concentrator has been stockpiled on site, and currently represents an inventory of approximately 173,000 tonnes as feed for the second Concentrator.



The new plant is expected to reach steady production of 20,000 - 24,000 tonnes of Concentrate per month, at a targeted grade of 64% Fe by July 2013. This additional production will increase the mine's overall mass recovery to approximately 76%.

The construction of the second concentrator was funded from operating cash flow and was completed at a cost of approximately \$3.9 million.

4. Production volumes

	Dec 12 Qtr (tonnes)	March 13 Qtr (tonnes)	Movement (tonnes)	Movement (%)
ROM production	550,447	387,287	(163,160)	(30%)
Beneficiated production	172,634	179,888	7,254	4%
Finished stock at Ponto Verde at end of Quarter	30,497	17,276	(13,221)	(43%)

SAFM posted record Beneficiated production during the quarter, despite heavy rains experienced during the month of March 2013. SAFM anticipates an increase in Beneficiated production in the June 2013 Quarter due to the commissioning and ramp up of the second Concentrator.

5. Sales volumes

	Dec 12 Qtr (tonnes)	March 13 Qtr (tonnes)	Movement (tonnes)	Movement (%)
Sinter Feed	60,191	74,611	14,420	24%
Lump	46,753	52,278	5,525	12%
Concentrate	77,436	66,145	(11,291)	(15%)
Total sales of Beneficiated product	184,380	193,034	8,653	5%

Sales of beneficiated products increased by 5% during the March 2013 quarter to 193,034 tonnes. The Company has widened its base of customers and strong interest has been shown in its new Concentrate product that has grade of around 64%.

6. Completion of on-site laboratory

SAFM completed the construction of its on-site laboratory during the quarter. The laboratory will enable a shorter turnaround of assay results ensuring the quality measures for product are maintained, improving mine planning and quicker reserve assessment for the current expansion feasibility study.

7. New Chief Executive Officer

Mr Stephen Turner joined SAFM as its Chief Executive Officer, effective from 1 March 2013.

Mr Turner is one of SAFM's founding directors with extensive experience in the resource sector. He has over 30 years' experience in financial markets and has specialised in the natural resources sector. Mr Turner has successfully delivered resource projects in Australia, Southern Africa, Fiji, New Caledonia and the Solomon Islands. He was a founder and Managing Director of International Ferro Metals Ltd, a substantial South African Ferrochrome producer, and currently holds the position of non-executive deputy Chairman.

Mr Turner's base remuneration of \$390,000, including superannuation has been approved by the Board.



8. Updated JORC Resource Statement

On 24 April 2013, it was announced that the Ponto Verde JORC resource had increased to 301.06 Mt at 40.65% Fe, including Measured Resources of 72.76 Mt at 41.06% Fe, Indicated Resources of 101.96 Mt at 40.68% and Inferred Resources of 126.3 Mt at 40.45% Fe.

This estimate provides the basis for open pit design and scheduling to establish mineable ore reserves and to support the Bankable Feasibility Study.

Exploration drilling at depth has highlighted that mineralisation extends to over 400 metres depth. Based on this, SAFM's future exploration programme will target the core of the deposit at depth and in extensions to the north of the current projected pit envelope. This has the potential to further increase the size of the deposit.

9. Safety and Environment

SAFM's safety and environmental performance underpins the Company's license to operate and grow in Brazil. There have been no reportable accidents or environmental incidents continuing SAFM's unblemished record since the commencement of mining in November 2010.

10. Cash Flow from Operations

SAFM recorded a positive cash flow from operations of \$2.4 million for the March 2013 quarter as a result of increased sales volumes and higher selling prices. The Company's capital projects amounted to cash expenditure of \$1.8 million, consisting predominantly of the second Concentrator project. During the quarter SAFM repaid \$100,000 of its loan facilities in Brazil, leaving a cash balance of \$2 million at 31 March 2013.

For more information:

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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 in Brazil. The Company is currently completing its Bankable Feasibility Study (BFS) to expand Ponto Verde to a capacity of 8 Mtpa ROM throughput, from its current 1.5 Mtpa licenced capacity.

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 activity which they have each undertaken to qualify as a “Competent Person” as defined in the 2004 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 in this announcement of the statements based on their information in the form and context in which they appear.

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