

## QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 JUNE 2013

### Highlights:

- Updated scope of work with the Bankable Feasibility Study to be completed by 31 December 2013.
- Completion of the construction of the Second Stage Concentrator.
- Defined mineralised resources within the extended pit outline.
- Execution of USD\$15 million financing agreement with Deutsche Bank.
- Decrease in quarterly beneficiated product sales and production volumes reported for the quarter due to water reticulation problems and poor water quality.

South American Ferro Metals Limited (ASX: SFZ) ("SAFM" or the "Company") provides the following commentary for the three months ended 30 June 2013, to be read in conjunction with Appendix 5B.

SAFM's Chief Executive Officer, Stephen Turner commented:

*"SAFM continues to make significant progress in its BFS. During the quarter, the company finalised the detailed scope of work for completion of the BFS, which remains on track for delivery by 31 December 2013. In addition, SAFM's Mineral Resource estimate was updated to over 300 million tonnes which supports the expansion's open pitt design. The Company also successfully completed its financing arrangement with Deutsche Bank during the quarter, which strengthens its balance sheet and provides the necessary financing for completion of the BFS."*

### 1. Expansion project

SAFM signed an agreement with Logicamms Consultants Pty Ltd for the final scope of work of its Bankable Feasibility Study ("BFS"). The Company has commenced the first stage of the program, including the geotechnical and mining studies.

Design work is currently in progress on the following processes:

- Primary crushing;
- Scalping, secondary crushing and wet screening;
- Rod mill;
- WHIMS (4 roughers, 3 cleaners and 2 re-cleaners);
- Concentrate thickening and filtration, stocking and loading; and
- Tailings management.

The BFS is targeted for completion by 31 December 2013.



## 2. Execution of financing agreements

On 25 July 2013, the Company announced it had signed final financing and security agreements and satisfied all conditions precedent with Deutsche Bank for a USD15 million, two year loan facility. The facility strengthens SAFM's working capital through the period to completion of its Bankable Feasibility Study for its Ponto Verde Project.

## 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.

Commissioning of this second concentrator has been slower than expected due largely to problems with the filters and the water quality in the plant. However, these problems have been resolved and SAFM is now in the process of optimising the performance of the plant.

The new plant is expected to reach steady production, at a targeted grade of 64% Fe by September 2013.

## 4. 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 BFS.

Exploration drilling 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.

## 5. Production volumes

	March 13 Qtr (tonnes)	June 13 Qtr (tonnes)	Movement (tonnes)	Movement (%)
ROM production	387,287	320,360	(66,927)	(17%)
Beneficiated production	179,888	130,777	(49,111)	(27%)
Finished stock at Ponto Verde at end of Quarter	17,276	34,630	17,354	100%

Production of beneficiated product experienced an unexpected dip in April 2013 with volumes slowly recovering in May 2013 and June 2013, although being below forecast levels.

The dip in production from April 2013 was caused by a combination of factors including a late prolonged and heavy rainy season that resulted in water reticulation problems, as well as poor water



quality that impacted the performance of the Cone crusher. Furthermore, the operations experienced longer than expected impediments to output of Concentrate 1 during commissioning of Concentrator 2 plant.

## 6. Sales volumes

	March 13 Qtr (tonnes)	June 13 Qtr (tonnes)	Movement (tonnes)	Movement (%)
Sinter Feed	74,611	29,063	(45,548)	(61%)
Lump	52,278	37,315	(14,963)	(29%)
Concentrate	66,145	47,041	(19,104)	(29%)
Total sales of Beneficiated product	193,034	113,420	(79,615)	(41%)

Sales of beneficiated products decreased by 41% during the June 2013 quarter to 113,420 tonnes in line with lower production.

## 7. Safety and Environment

SAFM's safety and environmental performance underpins the Company's license to operate and grow in Brazil. There was one reportable accident during the period involving a member of our administration staff twisting his knee. This injury resulted in three days away from work.

## 8. Cash Flow from Operations

SAFM recorded a cash outflow from operations of \$284,000 for the June 2013 quarter. The Company's capital projects amounted to cash expenditure of \$1.32 million, consisting predominantly of the second Concentrator project.

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