

## SAFM EXPANSION UPDATE

### Highlights:

- **Acquisition of waste and tailing properties as part of SAFM's expansion to 8 Mtpa**
- **Progress update on Bankable Feasibility Study**

South American Ferro Metals Limited (ASX: SFZ) ("SAFM" or the "Company") is pleased to announce the following updates to its Ponto Verde Mine ("PVM") expansion project in Minas Gerais, Brazil:

SAFM's Managing Director Stephen Turner said:

*"The additional land acquisitions are strategic for the Company's expansion. Progress on our BFS encourages SAFM to consider the possibility beyond the initial 8 million tonne processing plan and based upon the expectation that the PVM ore body will be proven to extend well beyond its current JORC definition, the Company has acquired substantial additional storage areas.*

*Improved understanding of the ore body, including its grade and structure, has initiated enhancements to both the proposed ore beneficiation and logistics planning, which now has finalisation of the BFS extended to April 2014.*

*The extension in the BFS timetable is underpinned by the significant reductions in anticipated capital expenditure and processing costs.*

### Acquisition of waste and tailings properties

SAFM has entered into an agreement for the acquisition of a 100 hectare property in the south of its PVM for R\$11 million (A\$5.27 million). The property will be used for tailings and waste disposal to be generated from SAFM's expansion project. The consideration payable under this agreement includes an upfront payment of R\$2 million (A\$0.96m) which has been settled and the balance of R\$9 million (A\$4.31 million) to be paid on 30 December 2013.

In addition, SAFM has obtained an option to acquire an additional 100 hectares contiguous with the initial 100 hectares from the seller at the same price of R\$11m (A\$5.27m) to be exercised by SAFM by 30 January 2014. Once exercised, the Company will be required to settle the purchase consideration by 30 June 2015.

A technical and environmental study of the area and has been conducted by Consultoria e Empreendimentos de Recursos Naturais Ltda ("CERN") confirming that there are no restrictions regarding the deposition of waste and tailing on the two sites. Furthermore, there are no archaeological impediments discovered on the site which would limit its use.

A detailed study of the volume capacity ratio between waste and tailings was performed by engineering consulting firm, GeoGraphos Engenharia e Consultoria Ltda ("Geographos"). The study concluded that the total area covered by the two land acquisitions would be sufficient in size to hold approximately 64 million cubic metres of waste and tailing material which would be sufficient for the expanded mine life.

## **Progress update on the Bankable Feasibility Study**

The following provides an update of the BFS to date:

### *Mine Planning*

The ore body comprises mainly of friable Itabirite material. This iron deposit from the Itabira group appear in hematite rich Itabirite layers in the Cauê and Gandarela formations, as well as in small superficial deposits of Itabirite Colluviums, linked to these units. Mining will be conducted using proven open pit mining methods with the ore being crushed, screened and then magnetically separated to produce Concentrate. The study is based on proven non-blasting technology.

Coffey International Limited (“Coffey”) has completed a desk-top-study to determine the fundamental viability of expanding the PVM site and a mining supply assessment inclusive of budget quotations of the mining equipment required for production of ore and handling of waste.

Based on the above study, a preliminary mine schedule has been formulated which includes the selection of mining methods and equipment and definition of the production rate. Further mining scheduling and design studies are scheduled for completion later this year.

### *Plant & Infrastructure Design*

It is anticipated that the process circuit will consist of crushing and screening, followed by grinding, magnetic separation, thickening and filtration processes.

SAFM is currently evaluating two logistical solutions from the mine to the rail terminal. Preliminary geotechnical investigations have been completed for the proposed process plant location.

CEMIG, one of the largest Brazilian power generators and distributors, has completed the feasibility study for the power supply to the mine. The study proposes the layout of the intended transmission line together with estimated capital costs. Further discussions are currently underway to finalise agreements over the future power supply.

As set out in the ASX announcement dated 24 April 2013, SAFM has entered into a memorandum of understanding with MRS<sup>1</sup> to develop a logistics solution for the rail transportation of iron ore from SAFM’s PVM to the port terminals at Baía de Sepitiba in the state of Rio de Janeiro, approximately 400 km from Ponte Verde mine.

The PVM is located 15 km west of the Andaime branch line of the MRS system, which transports production from the Minas Itabirites mines adjoining PVM.

The rail transportation of the product will utilise existing MRS infrastructure for the loading and unloading of iron ore products, but also incorporates the development of a new loading terminal. A potential location for the rail stockyard and terminal has been identified and a company that specializes in railway terminals is currently preparing a concept design of the terminal.

Discussions are currently being held with port operators. It is expected that the proposed port operator will be responsible for all port services including the provision of warehouses and stockyards.

### *Permits & Legal Support, Including Environmental Licenses*

Applications for environmental and installation licenses were submitted to the relevant environmental and regulatory agencies in July 2013. SAFM expects these licenses to be granted at the beginning of the 2014 calendar year.

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<sup>1</sup> MRS is one of the largest railway companies in Brazil. MRS operates the South-Eastern Federal Railroad Network, which connects the states of Minas Gerais, Rio de Janeiro, and São Paulo to three of the most important seaports of Brazil, being Rio de Janeiro, Itaguaí and Santos. Its railway network stretches 1,643 kilometres and transports approximately 65% of Brazil’s gross domestic product.

An archaeological field survey was concluded on the mine site and the resulting final report was lodged with the National Institute of Brazilian Artistic and Historical Heritage (“IPHAN”) in January 2013. SAFM has also completed the registration of landowners along the proposed logistics corridor for the expansion.

#### *Looking ahead*

Progress will continue and is expected to accelerate on a number of fronts of the BFS with emphasis on permits and environmental licenses, land tenure and preliminary field investigations. Further metallurgical test work will take place and be completed and report issued within the next 5 months and the process route will be finalized based on a pellet feed product.

The development of the BFS engineering, which includes the mining study, will continue upon completion of the metallurgical test work program which will finalize the characteristics of the product. Specialized Consultants such as Marketing and Financial Modeling experts have also been appointed to support the feasibility study.

CEMIG will be updating the previous completed feasibility study on the power supply options. This revision will recommend for SAFM consideration, a number of activities that should be addressed prior to project implementation in order to secure the power supply for the expansion start-up. These among others will be environmental licenses, land tenure and conceptual engineering.

Negotiations with MRS to develop a logistics solution for rail transportation of the product are continuing, as are discussions with port operators.

The metallurgical test work is expected to be complete by mid April 2014 which will be followed by the finalization of the BFS at the end of April 2014.

#### **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. The BFS is expected to be completed by 30 April 2014.

#### **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)