

UPDATE ON PROGRESS OF EXPANSION PLANS

Highlights:

- **Memorandum of Understanding executed with rail corporation, MRS Logistica SA, to develop a rail based logistics solution for the port delivery for export of SAFM's production.**
- **An increase of the Ponte Verde JORC resource to 301.6 Mt at 40.7% Fe, of which 174.7 Mt comprises Measured and Indicated Resources.**

South American Ferro Metals Limited (ASX: SFZ) ("SAFM" or the "Company") is pleased to present a progress update on the expansion at its Ponte Verde Iron Ore project in Brazil.

Agreement with rail company MRS Logistica SA ("MRS")

One of SAFM's primary goals has been to establish a strong export component to the business.

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 Ponte Verde mine to the port terminals at Baía de Sepitiba in the state of Rio de Janeiro, approximately 400 km from Ponte Verde mine.

The Ponte Verde mine is located 15 km west of the Andaime branch line of the MRS system, which transports production from the Minas Itabaritos mines adjoining Ponte Verde.

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. Annually, MRS transports and provides logistics for more than 100 million tons of general rail cargo such as ore, steel, cement, coke, containers, and agricultural products. It also has a connection to the privately owned iron ore terminal of MBR on Ilha de Guaíba at Angra dos Reis.

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

The commitment to plan for export transportation, as represented by the agreement with MRS, constitutes a significant step towards the fulfilment of SAFM's goal of exporting future product. Finalisation of the logistics agreement will be subject to approval by the National Agency for Land Transport and licensing by the environmental agencies.

Resource upgrade

SAFM is pleased to announce that recently completed estimation of resources significantly exceed initial expectations.

In November 2012, SAFM completed its Phase II Resource Definition Program and announced an upgrade of its updated resources from 230 million tonnes to 277.9 million tonnes (refer ASX announcement dated 16 November 2012). Outstanding work remained at the time on the analysis of the full mineralised envelope within an extended pit outline.

The Company has now completed this review which has resulted in an increase of its resource estimate within the projected open pit envelope from 277.9 million tonnes to 301.1 million tonnes. This estimate provides the basis for open pit design and scheduling to establish mineable ore reserves, as well as supports the Bankable Feasibility Study.

A breakdown of the new resource is set out below:

Ponto Verde Iron Ore Project (Cut-off Grade Applied: 20% Fe)		
Resource Class	Tonnes (Mt)	Fe (%)
Measured	72.76	41.06
Indicated	101.96	40.68
Measured & Indicated	174.72	40.84
Inferred	126.34	40.45
Total Resource	301.06	40.65

Exploration drilling at depth has highlighted that mineralisation extends to over 400 metres depth. Based on this, SAFM is planning its next drilling program to 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.

SAFM Chief Executive Officer Stephen Turner commented:

“The further development of the Resource as a predictable and robust ore body provides the strong basis on which we are designing our 8 million tonne per annum ROM expansion. This recognition of additional resources, together with the agreement with MRS, are significant milestones for the Company in its expansion to a significant Brazilian Iron ore exporter.”

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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, 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.

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 he has 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 his 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.

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