

29 February 2012

ASX / Media Announcement

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## **SAFM STUDIES EXPANSION OF PONTO VERDE MINE TO 8 MILLION TONNES A YEAR**

### ***Phase II of Resource Definition Programme also approved***

- Preliminary Study indicates an expansion to an 8 million tonne per annum (Mtpa) plant throughput is viable, with a traditional single product process stream option of crushing, grinding and magnetic separation.
- The Bankable feasibility Study (BFS) is expected to take one year to complete; some additional time may be required to secure all permits.
- In addition, Phase II of the Resource Definition Programme approved, aimed at increasing the resource base and resource confidence level under JORC.
- BFS to also consider a further 8 Mtpa expansion II to bring total licenced capacity to 16 Mtpa.

South American Ferro Metals Limited (ASX: SFZ) ("SAFM" or the "Company"), the only ASX-listed pure iron ore producer in Brazil, announces that it has approved the commencement of a Bankable Feasibility Study (BFS) to expand SAFM's 100% owned Ponto Verde Iron Ore mine to a capacity of 8 Mtpa ROM throughput, from the current 1.5Mtpa licenced capacity.

Partly to support this expansion, the Board has also approved the commencement of Phase II of the Resource Definition Programme. This programme will aim to increase the size of the deposit at Ponto Verde in line with the Exploration Target of around 300 to 350Mt at 40 to 44%<sup>1</sup>, from the current JORC compliant resource of 230.6Mt at 44.52%<sup>2</sup> (Includes Indicated Resource of 60.6Mt at 41.61% Fe, and Inferred Resource of 170Mt at 45.55% Fe). The increased Indicated Resource is expected to support a production level of 8Mtpa with more than 10 years of Mineable Ore (under ASX and JORC reporting standards).

SAFM will shortly appoint an international engineering firm to undertake the BFS, which will take 12 months to complete.

<sup>1</sup> The Exploration Target is based on the geological model associated with the defined JORC Resource as stated, and has been determined by a JORC Competent Person Mr Philip Hopkins. It is uncertain if further exploration of the Exploration Target will result in the determination of Mineral Resources.

<sup>2</sup> Coffey Mining, December 2011 - see ASX announcement dated 23<sup>rd</sup> December 2011.

An additional number of months are expected to be required to finalise the necessary permitting under Brazilian law. A preliminary study was completed in January 2012 and has indicated that a Phase I expansion to 8Mtpa is feasible utilising a single product process option of crushing, grinding and magnetic separation. The BFS will also evaluate the required footprint and preliminary work required for a second (Phase II) 8 Mtpa expansion of Ponto Verde.

Commencement of the BFS is a significant milestone for SAFM, and one that continues the exceptional progress made by SAFM over the past six months. Full licenced capacity of 1.5Mtpa was achieved with the introduction of a third shift at Ponto Verde in September 2011, and the company announced a maiden JORC resource for the Project in December 2011.

SAFM Chief Executive Officer and Executive Director Philip Hopkins said:

“We believe that Ponto Verde has the potential to become a world scale, long-life iron ore producer, and so the commencement of this bankable feasibility study is therefore an exciting milestone both for the Project and for SAFM. The preliminary study work has shown us that Ponto Verde has the potential to produce approximately 5Mtpa of saleable product from an overall plant throughput of 8Mtpa. In turn there is the expectation that this site will be expanded further. The fundamentals for the domestic and global iron ore markets remain strong, and Ponto Verde remains a high quality, cornerstone project for SAFM as we consider options to grow both organically and through acquisitions.”

The following chart demonstrates a preliminary timeline for the BFS:

South American Ferro Metals – Bankable Feasibility Study - Phase I Expansion to 8.0 Mtpa														
Feasibility Study														
Permits														
Detailed Engineering														
Long Lead Items														
Construction														
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	2012				2013				2014				2015	

## **Phase II Resource Definition Programme**

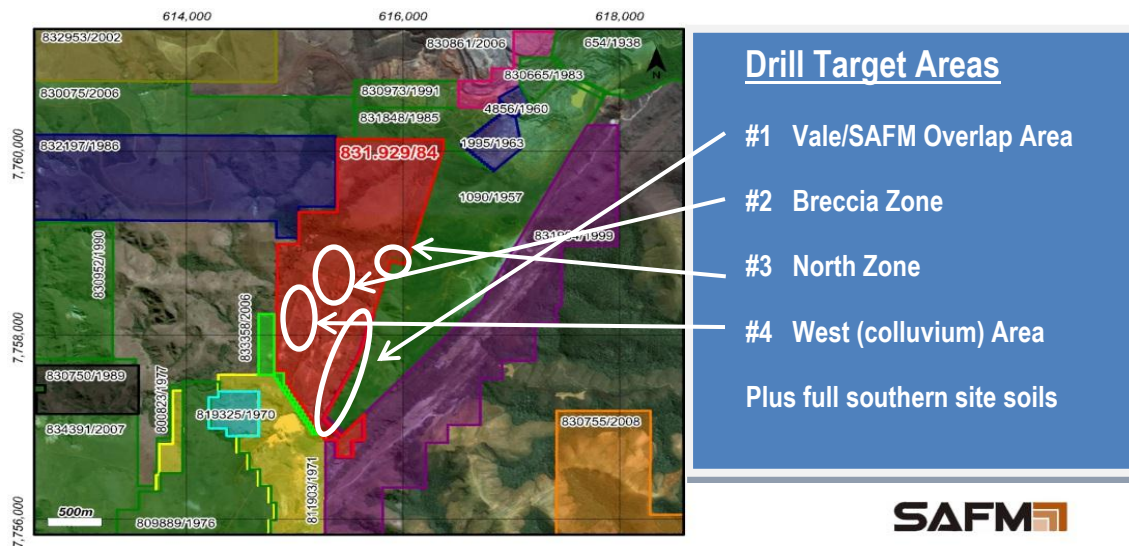
Phase II of the Resource Definition Program is expected to take approximately eight months at an estimated cost to SAFM of \$1.61 million to be funded internally. In addition to proving up the necessary resources for the BFS, Phase II will further demonstrate the robust nature of the Ponto Verde deposit. Phase II has the following objectives:

1. Increase JORC Indicated Resource from 60Mt at 41.61% Fe (Inferred Resource of 170Mt at 45.55%) to support the BFS.
2. Increase the overall JORC Resource in line with the Exploration Target of 300 to 350Mt at 40 to 44%<sup>2</sup> to demonstrate deposit upside.

Phase II will consist of three drill rigs working on site for four months, followed by data capture, geological modelling and final resource determination. In order to achieve the stated objectives outlined above, four target drill areas have been defined:

1. Vale/SAFM overlap area (mineral rights belong to SAFM)
2. Breccia Zone discovered in Phase I of the Resource Definition Programme.
3. North zone or extension to the northern Resource trend adjacent to the Vale lease.
4. West Zone of associated colluvium mineralisation.

In addition and across the majority of the southern mineral lease there is a layer or surface zone of good quality iron ore mineralisation that contains material that was not captured in the Phase I Resource definition Programme. Although the true thickness of the Zone is not large (estimated 6 to 18m) the overall surface area may be material and thus the associated tonnage potentially appreciable. This material has historically been of good grade and course in nature, thus assisting in the production of quality Lump product.



For more information:

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### **About South American Ferro Metals**

South American Ferro Metals Limited owns 100% of the producing Ponto Verde Iron Ore Project in the heart of the Iron Ore Quadrilateral in Brazil, 35 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.

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

### **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.

### **Competent Persons' Statement**

Information in this statement that relates to the JORC Resource at Ponto Verde is based on information compiled by Bernardo Horta Cerqueira Viana who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Viana has 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 consents to the inclusion in this announcement of the statements based on his information in the form and context in which they appear.

Information in this announcement that relates to Exploration Targets and on targeted resources is based on information provided by Mr Philip Hopkins, Chief Executive Officer of South American Ferro Metals Limited, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Hopkins has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a competent person as defined in the '2004 Edition of the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves'. Mr Hopkins consents to the inclusion in the report of the statements based on his information in the form and context in which it appears.