

# SOUTH AMERICAN FERRO METALS LIMITED

ACN 128 806 977



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## PROSPECTUS

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For an offer of up to 41,666,667 Shares at an issue price of \$0.36 per Share to raise up to \$15,000,000 (**Offer**).

**This Replacement Prospectus replaces the Original Prospectus Dated 29 September 2010**

**LEAD MANAGER TO THE OFFER – PATERSONS SECURITIES LIMITED**



### IMPORTANT INFORMATION

This is an important document that should be read in its entirety. If you do not understand it you should consult your professional advisers without delay. **The Shares offered by this Replacement Prospectus should be considered speculative.**



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**IMPORTANT NOTICE**

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This Replacement Prospectus is dated 14 October 2010 and was lodged with the ASIC on that date. This Replacement Prospectus replaces the prospectus issued by the Company on 29 September 2010 (**Original Prospectus**).

The ASIC and its officers take no responsibility for the contents of this Replacement Prospectus or the merits of the investment to which this Replacement Prospectus relates.

The expiry date of this Replacement Prospectus is at 5.00pm (WST) on that date which is 13 months after the date the Original Prospectus was lodged with the ASIC (**Expiry Date**). No Shares may be issued on the basis of this Replacement Prospectus after the Expiry Date.

Application for Official Quotation by ASX of the Shares offered pursuant to this Prospectus will be made within 7 days after the date of this Prospectus.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any of these restrictions. Failure to comply with these restrictions may violate securities laws. Applicants who are resident in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.

No person is authorised to give information or to make any representation in connection with this Prospectus, which is not contained in the Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with this Prospectus.

It is important that investors read this Prospectus in its entirety and seek professional advice where necessary. The Shares the subject of this Prospectus should be considered highly speculative.

**EXPOSURE PERIOD**

This Prospectus will be circulated during the Exposure Period. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. Potential investors should be aware that this examination may result in the identification of deficiencies in the Prospectus and, in those circumstances, any application that has been received may need to be dealt with in accordance with Section 724 of the Corporations Act.

Applications for securities under this Prospectus will not be processed by the Company until after the expiry of the Exposure Period. No preference will be conferred on persons who lodge applications prior to the expiry of the Exposure Period. **Application Forms submitted that relate to the Original Prospectus will not be accepted.**

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**RISK FACTORS**

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Potential investors should consider that an investment in the Company is highly speculative and should consult their professional advisers before deciding whether to apply for Shares pursuant to this Prospectus. For further information in relation to the risk factors of the Company please refer to Section 6 of the Prospectus.

The risk factors set out in Section 6 of this Prospectus, and other general risks applicable to all investments in listed securities not specifically referred to, may affect the value of the Shares in the future. Accordingly, an investment in the Company should be considered highly speculative.

The Directors have identified the following key risks associated with the Company and its operations.

**Change in nature and scale of activities**

At the General Meeting held on 13 September 2010, the Company obtained Shareholder approval for a change in nature and scale of its activities. In accordance with the requirements of the ASX in relation to this change of activities, the Company must re-comply with Chapters 1 and 2 of the ASX Listing Rules. This Prospectus is issued to assist the Company to re-comply with these requirements.

The Company will be suspended from Official Quotation from the time of the General Meeting and will not be reinstated until satisfaction of the conditions to the Offer and ASX approving the Company's re-compliance with Chapters 1 and 2 of the ASX Listing Rules.

There is a risk that the Company may not be able to meet the requirements of ASX for re-quotation on the ASX. In the event the conditions to the Offer are not satisfied or the Company does not receive conditional approval for re-quotation on ASX then the Company will not proceed with the Offer and will repay all application monies received.

**Risks associated with South American Ferro Metals Limited's operations in Brazil**

Upon completion of the Share Sale Agreement, the Company's primary project will be located in Brazil and the Company will be subject to the risks associated with operating in that country, including various levels of political, economic and other risks and uncertainties. These risks and uncertainties include, but are not limited to, terrorism, hostage taking, military repression, extreme fluctuations in currency exchange rates, high rates of inflation, labour unrest, the risks of war or civil unrest, expropriation and nationalization, renegotiation or nullification of existing concessions, licences, permits and contracts, illegal mining, changes in taxation policies, restrictions on foreign exchange and repatriation and changing political conditions, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Changes, if any, in mining or investment policies or shifts in political attitude in Brazil may adversely affect the operations or profitability of the Company. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, foreign currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety.

Failure to comply strictly with applicable laws, regulations and local practices relating to mineral rights applications and tenure, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

Outcomes in courts in Brazil may be less predictable than in Australia, which could affect the enforceability of contracts entered into by the Company or its subsidiaries in Brazil.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the operations or profitability of the Company. The Company has made its investment and strategic decisions based on the information currently available to the Directors, however should there be any material change in the political, economic, legal and social environments in Brazil, the Directors may reassess investment decisions and commitments to assets in Brazil.

#### **No JORC compliant resource**

No project that the Company has an interest in has a JORC resource. Further exploration is required to determine the extent of the Company's viable mineral deposits.

There can be no assurance that exploration of the Project, or any other tenements that may be acquired by the Company in the future, will result in the discovery of JORC Code resource classification.

#### **Title risk**

Interests in mineral rights in Brazil are governed by Brazilian legislation. A mining right is for an open ended term, provided certain requirements are met, including lodgement of reports, payment of royalties and compliance with environmental licence conditions and environmental legislation. Consequently, the Company could lose title to or its interest in the Mining Permit if these requirements are not met.

It is also noted that there is a dispute between the previous owner of the Mining Permit and a third party as to ownership of the surface rights over a 32 hectare area within the 150 hectare Mining Permit. Depending on the outcome of this dispute, SAFM Brazil may be required to pay the owner of the surface rights a royalty of 1% of net revenue from the sale of iron ore produced from the disputed area. Despite the existence of this dispute, SAFM Brazil is entitled to exploit the deposit under the Mining Permit without hindrance.

#### **Environmental and Licensing Risk**

SAFM is awaiting receipt of its operational environmental license (LO), which is expected to be received in October 2010. Whilst the Company believes that the grant of the LO is a mere formality, there is a risk that LO may not be obtained for some time, or that the relevant governmental agency may impose some further conditions which would need to be fulfilled before the LO is granted. SAFM cannot commence production from the Project until the LO is granted.

#### **Additional requirements for capital**

The Directors expect that the Company will have sufficient capital resources to enable the Company to achieve its initial business objectives upon settlement of the Share Sale Agreement.

However, the Directors can give no assurances that such objectives will in fact be met without future borrowings or capital raisings. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and

operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and scale back its expansion and development programs. If the Company is successful in meeting its initial objectives with respect to the Project, then additional capital may be required to further develop its operations and pursue business opportunities.

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**WEB SITE – ELECTRONIC PROSPECTUS**

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A copy of this Prospectus can be downloaded from the website of the Company at [www.rivieraresources.com.au](http://www.rivieraresources.com.au). Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must be an Australian resident and must only access this Prospectus from within Australia.

The Corporations Act prohibits any person passing onto another person an Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. Any person may obtain a hard copy of this Prospectus free of charge by contacting the Company.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

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**COMPETENT PERSON'S STATEMENT**

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The information in Sections 5 and 8 of this Prospectus that relates to Exploration Results, Minerals Resources or Ore Reserves and is attributable to the Independent Geologist's Report in Section 8 is based on information reviewed and compiled by Mr Daniel Guibal, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Guibal is an employee of SRK Consulting and has sufficient experience which is relevant to the style of mineralisation and the 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 of Exploration Results, Minerals Resources and Ore Reserves. Mr Guibal consents to the inclusion in the Prospectus of this information in the form and context in which it appears.

The information in Sections 5 and 9 of this Prospectus that relates to Exploration Results, Minerals Resources or Ore Reserves and is attributable to the Independent Technical Report in Section 9 is based on information reviewed and compiled by Dr Norman Lock, who is a Chartered geologist and Fellow of the geological Society of London, a Member of the Geological Society of South Africa and a Professional Natural Scientist registered with the South African Council for Natural Scientific Professions. Dr Lock has the appropriate relevant qualifications, experience, competence and independence to be considered an "expert" under the definitions provided in the Valmin Code and as a "Competent Person" under the definition provided in the JORC Code. Dr Lock consents to the inclusion in the Prospectus of this information in the form and context in which it appears.

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## 1. CORPORATE DIRECTORY

**Existing Directors**

Mark Foster, Non-Executive Chairman (retiring)  
 Philip Re, Executive Director  
 Paul Lloyd, Non-Executive Director  
 Nicholas Revell, Non-Executive Director (retiring)

**Proposed Directors**

Terence Willstead, Non-Executive Chairman  
 Stephen Fabian, Managing Director  
 Stephen Turner, Non-Executive Director

**President Operations - Brazil**

Rodrigo Branco

**Company Secretary**

Philip Re

**Registered Office**

Level 1, 322 Hay Street  
 SUBIACO WA 6009

Telephone: (08) 9388 9744

**Principal Place of Business**

Level 1, 322 Hay Street  
 SUBIACO WA 6009

**ASX Code:**

Current: RVE

Proposed: SFZ

**Share Registry\***

Advanced Share Registry Ltd  
 Unit 2, 150 Stirling Highway  
 NEDLANDS WA 6009

Telephone: (08) 9389 8033  
 Facsimile: (08) 9389 7871

**Lead Manager**

Patersons Securities Limited  
 Level 23, Exchange Plaza  
 2 The Esplanade  
 PERTH WA 6000

**Independent Geologist – Brazil**

SRK Consulting (Australasia) Pty Ltd  
 Level 1  
 10 Richardson Street  
 WEST PERTH WA 6005

**Independent Mining Engineer – Brazil**

Coffey Consultoria e Servicos Ltda  
 Av. Afonso Pena 3924 conj. 207  
 Bairro Cruzeiro  
 BELO HORIZONTE - MG - CEP 30.130-009  
 BRAZIL

**Independent Geologist – Australia**

Malcolm Castle  
 Agricola Mining Consultants Pty Ltd  
 PO Box 473  
 SOUTH PERTH WA 6951

**Australian Solicitors**

Steinepreis Paganin  
 Lawyers and Consultants  
 Level 4, The Read Buildings  
 16 Milligan Street  
 PERTH WA 6000

**Brazilian Solicitors**

FFA Legal  
 Av. das Americas, 700 – Citta America  
 Bloco 8 – Loja 215 A – Barra da Tijuca  
 RIO DE JANEIRO RJ CEP 22640-100  
 BRAZIL

**Auditor and Investigating Accountant**

Bentleys  
 Level 1  
 12 Kings Park Road  
 WEST PERTH WA 6005

\* This entity is included for information purposes only. It has not been involved in the preparation of this Prospectus.

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## 2. CHAIRMAN'S LETTER

Dear Investor,

On behalf of the Directors of South American Ferro Metals Limited (**Company** or **SAFM**), I am delighted to invite you to subscribe for up to 41,666,667 Shares at an issue price of \$0.36 per Share, to raise up to \$15,000,000.

On 24 March 2010, the Company announced that it had signed an agreement to acquire the mineral rights and property at Ponto Verde, located in the heart of the Iron Ore Quadrilateral, 55 kilometres from the town of Belo Horizonte in Minas Gerais State, Southern Brazil (**Project**) via acquisition of the Project's holding company, SAFM Mineracao Limitada (**SAFM Brazil**).

Subsequently, a formal share sale agreement was executed pursuant to which SAFM (formerly Rivera Resources Limited ASX:RVE) will acquire 100% of the issued capital of South American Ferro Metals Limited, a company incorporated in the British Virgin Islands (**SAFM Holdings**). SAFM Holdings owns 100% of SAFM Brazil, which in turn owns 100% of the Project. Further details of the Project are set out in Section 5 of this Prospectus.

The Company anticipates that it will be in a position to complete the acquisition of SAFM Holdings at or prior to the date it will issue Shares pursuant to this Offer.

The SAFM Board considers this to be an excellent opportunity for SAFM (formerly RVE) to transform from being a gold exploration company to an iron ore explorer and producer in one of the world's prime iron ore producing regions.

The Company intends to use the funds raised from the Offer primarily towards the development of the Project and upgrading of the existing plant infrastructure.

The Board looks forward to welcoming you as a Shareholder.

Yours sincerely



**Mark Foster**  
**Chairman**  
**SOUTH AMERICAN FERRO METALS LIMITED**

### 3. INVESTMENT OVERVIEW

#### 3.1 Important notice

This Section is not intended to provide full information for investors intending to apply for Shares offered pursuant to this Prospectus. This Prospectus should be read and considered in its entirety.

#### 3.2 Indicative timetable

| Event                                                                                             | Date              |
|---------------------------------------------------------------------------------------------------|-------------------|
| Suspension of SAFM's securities from trading on ASX                                               | 13 September 2010 |
| General Meeting to approve change of activities                                                   | 13 September 2010 |
| Lodgement of this Replacement Prospectus with the ASIC                                            | 14 October 2010   |
| Opening date of the Offer                                                                         | 14 October 2010   |
| Closing date of the Offer*                                                                        | 22 October 2010   |
| Settlement of the Acquisition*                                                                    | 26 October 2010   |
| Issue of Shares under the Offer and despatch of holding statements*                               | 26 October 2010   |
| Anticipated date the suspension of trading of Shares is lifted and the re-listing of SAFM on ASX* | 29 October 2010   |

\* These dates are indicative only and may change without notice. The Company reserves the right to extend the Closing Date or close the Offer early without notice.

#### 3.3 Objectives

The Company's main objectives in undertaking the Offer include:

- assist the Company to meet the requirements of ASX and re-comply with Chapters 1 and 2 of the ASX Listing Rules;
- raising funds to be applied towards the development of the Project; and
- to provide funds for general working capital and expenses of the Offer.

On completion of the Offer, the Board believes the Company will have sufficient working capital to achieve these objectives.

#### 3.4 Change in nature and scale of activities

As outlined in more detail in Section 5 of this Prospectus, the Company has entered into the Share Sale Agreement to acquire the interests of the Ponto Verde iron ore project situated approximately 55km south of the city of Belo Horizonte in Brazil (**Project**). The Share Sale Agreement is conditional upon the Company obtaining all necessary regulatory and shareholder approvals.

At the General Meeting the Company obtained Shareholder approval for a change in nature and scale of its activities. To give effect to this change in nature and scale of activities, ASX will require the Company to re-comply with Chapters 1 and 2 of the ASX Listing Rules. This Prospectus is issued to assist the Company to re-comply with these requirements.

The Company will be suspended from Official Quotation from the time of the General Meeting and will not be reinstated until satisfaction of the conditions to the Offer and ASX approving the Company's recompliance with Chapters 1 and 2 of the ASX Listing Rules.

In order to meet the requirements of Chapters 1 and 2 of the ASX Listing Rules, the Company has also obtained Shareholder approval to consolidate its issued capital on a one-for-two basis (**Consolidation**). The Shares offered under this Prospectus are offered on a post Consolidation basis.

There is a risk that the Company may not be able to meet the requirements of ASX for re-quotation on the ASX. In the event the conditions to the Offer are not satisfied or the Company does not receive conditional approval for re-quotation on ASX then the Company will not proceed with the Offer and will repay all application monies received.

### 3.5 Risk factors

Potential investors should be aware and consider that subscribing for Shares in the subject of this Prospectus involves a number of risks and an investment in the Company is highly speculative. Potential investors are urged to consider the risk factors of the Company set out in Section 6 of the Prospectus and consult their professional advisers before deciding whether to apply for Shares pursuant to this Prospectus.

The risk factors set out in Section 6 of this Prospectus, and other general risks applicable to all investments in listed securities not specifically referred to, may in the future affect the value of the Shares. Accordingly, an investment in the Company should be considered highly speculative.

### 3.6 Purpose of the Offer and use of proceeds

The purpose of the Offer is to position the Company to seek to achieve the objectives set out in Section 3.3 above.

The Company intends to use raised from the Offer as follows:

| Description                                                                                                                       | \$ (minimum subscription) | \$ (full subscription) |
|-----------------------------------------------------------------------------------------------------------------------------------|---------------------------|------------------------|
| Ponto Verde – JORC Drill Programme (to enable upgrade of the Exploration Target to JORC Measured and Indicated Resource status)   | 1,000,000                 | 2,500,000              |
| Upgrade to existing plant infrastructure                                                                                          | 1,000,000                 | 2,000,000              |
| Ongoing Project Evaluation (to support re-commencing mining operations)                                                           | 200,000                   | 2,500,000              |
| Working Capital and Feasibility Studies - Ponto Verde Project (including an exploration drilling programme to increase the target | 2,370,000                 | 7,050,000              |

|                                    |                    |                     |
|------------------------------------|--------------------|---------------------|
| mineralisation)                    |                    |                     |
| Expenses of the Offer <sup>1</sup> | 430,000            | 950,000             |
| <b>Total</b>                       | <b>\$5,000,000</b> | <b>\$15,000,000</b> |

<sup>1</sup> Refer to Section 15.8 of this Prospectus for further details.

In the event that less than the full subscription is raised, funds allocated will be reduced pro rata.

The above table is a statement of current intentions as of the date of this Prospectus. As with any budget, intervening events (including exploration success or failure) and new circumstances have the potential to affect the manner in which the funds are ultimately applied. The Board reserves the right to alter the way funds are applied on this basis.

### 3.7 Capital structure

The capital structure of the Company following completion of the Offer (assuming full subscription) is summarised below<sup>1</sup>:

| <b>Ordinary Shares</b>                                     | <b>Number</b>      |
|------------------------------------------------------------|--------------------|
| Shares currently on issue                                  | 31,569,128         |
| Issue of Shares pursuant to the Share Sale Agreement       | 83,977,967         |
| Issue of Shares pursuant to this Prospectus                | 41,666,667         |
| <b>Total Ordinary Shares after completion of the Offer</b> | <b>157,213,762</b> |

| <b>Performance Shares</b>                                                | <b>Number</b>      |
|--------------------------------------------------------------------------|--------------------|
| Issue of Class A Performance Shares pursuant to the Share Sale Agreement | 83,977,967         |
| Issue of Class B Performance Shares pursuant to the Share Sale Agreement | 83,977,967         |
| Issue of Class C Performance Shares pursuant to the Share Sale Agreement | 83,977,967         |
| <b>Total Performance Shares</b>                                          | <b>251,933,901</b> |

| <b>Options</b>             |                       |                    | <b>Number</b>     |
|----------------------------|-----------------------|--------------------|-------------------|
|                            | <b>Exercise Price</b> | <b>Expiry Date</b> |                   |
| Options currently on issue | \$0.20                | 31 December 2014   | 22,430,879        |
| <b>Total Options</b>       |                       |                    | <b>22,430,879</b> |

### 3.8 Restricted securities

Subject to the Company re-complying with Chapters 1 and 2 of the ASX Listing Rules, certain Shares on issue prior to the Offer, and to be issued pursuant to the Share Sale Agreement, will be classified by ASX as restricted securities and may be required to be held in escrow.

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## 4. DETAILS OF THE OFFER

### 4.1 The Offer

Pursuant to the Offer, the Company invites applications for up to 41,666,667 Shares at an issue price of \$0.36 per Share (on a post Consolidation basis) to raise up to \$15,000,000.

The Shares offered under this Prospectus will rank equally with the existing Shares on issue. Please refer to Section 14.1 for further information regarding the rights and liabilities attaching to the Shares.

### 4.2 Reconciliation with Chapters 1 and 2 of the ASX Listing Rules

At the General Meeting the Company obtained Shareholder approval for a change in nature and scale of its activities. To give effect to this change in nature and scale of activities, ASX will require the Company to re-comply with Chapters 1 and 2 of the ASX Listing Rules. This Prospectus is issued to assist the Company to re-comply with these requirements.

The Company will be suspended from Official Quotation from the time of the General Meeting and will not be reinstated until satisfaction of the conditions to the Offer and ASX approving the Company's reconciliation with Chapters 1 and 2 of the ASX Listing Rules.

There is a risk that the Company may not be able to meet the requirements of ASX for re-quotation on the ASX. In the event the conditions to the Offer are not satisfied or the Company does not receive conditional approval for re-quotation on ASX then the Company will not proceed with the Offer and will repay all application monies received.

### 4.3 Minimum subscription

The minimum subscription to be raised pursuant to the Offer is \$5,000,000.

If the minimum subscription has not been raised within four (4) months after the date of this Prospectus, all applications will be dealt with in accordance with the Corporations Act.

### 4.4 Applications

Applications for Shares under the Offer must be made using the Application Form.

Applications for Shares must be for a minimum of 6,000 Shares and thereafter in multiples of 600 Shares and payment for the Shares must be made in full at the issue price of \$0.36 per Share.

Completed Application Forms and accompanying cheques must be mailed to:

South American Ferro Metals Limited  
C/- Patersons Securities Limited

GPO Box W2024  
PERTH WA 6846

Or

Level 23, Exchange Plaza  
2 The Esplanade  
PERTH WA 6000

Cheques should be made payable to "South American Ferro Metals Limited – Share Offer Account" and crossed "Not Negotiable". Completed Application Forms must reach one of the above addresses by no later than the Closing Date.

The Company reserves the right to close the Offer early.

#### **4.5 ASX listing**

The Company will be suspended from Official Quotation from the time of the General Meeting and will not be reinstated until satisfaction of the conditions to the Offer and ASX approving the Company's recompliance with Chapters 1 and 2 of the ASX Listing Rules.

Application for Official Quotation by ASX of the Shares offered pursuant to this Prospectus will be made within 7 days after the date of this Prospectus. If approval is not obtained from ASX before the expiration of 3 months after the date of issue of the Prospectus, (or such period as varied by the ASIC), the Company will not issue any Shares and will repay all application monies for the Shares within the time prescribed under the Corporations Act, without interest.

The fact that ASX may grant Official Quotation to the Shares is not to be taken in any way as an indication of the merits of the Company or the Shares now offered for subscription.

#### **4.6 Allotment**

The Directors will determine the allottees of all the Shares in their sole discretion. The Directors reserve the right to reject any application or to allocate any applicant fewer Shares than the number applied for.

Subject to satisfaction of the conditions to the Offer and ASX approving the Company's recompliance with Chapters 1 and 2 of the ASX Listing Rules, Shares issued pursuant to the Offer will be allotted as soon as practicable after the Closing Date. Where the number of Shares issued is less than the number applied for, or where no allotment is made, surplus application monies will be refunded without any interest to the Applicant as soon as practicable after the Closing Date.

Pending the allotment and issue of the Shares or payment of refunds pursuant to this Prospectus, all application monies will be held by the Company in trust for the Applicants in a separate bank account as required by the Corporations Act. The Company, however, will be entitled to retain all interest that accrues on the bank account and each Applicant waives the right to claim interest.

#### **4.7 Applicants outside Australia**

This Prospectus does not, and is not intended to, constitute an offer in any place or jurisdiction, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. No action has been taken to register or qualify the

Shares or otherwise permit a public offering of the Shares the subject of this Prospectus in any jurisdiction outside Australia.

It is the responsibility of applicants outside Australia to obtain all necessary approvals for the allotment and issue of the Shares pursuant to this Prospectus. The return of a completed Application Form will be taken by the Company to constitute a representation and warranty by the applicant that all relevant approvals have been obtained.

#### **4.8 Oversubscriptions**

No oversubscriptions will be accepted by the Company.

#### **4.9 Not underwritten**

The Offer is not underwritten.

#### **4.10 Commissions payable**

The Company reserves the right to pay a commission of 5% (exclusive of goods and services tax) of amounts subscribed to any licensed securities dealers or Australian financial services licensee (including the Sponsoring Broker) in respect of any valid applications lodged and accepted by the Company and bearing the stamp of the licensed securities dealer or Australian financial services licensee. Payments will be subject to the receipt of a proper tax invoice from the licensed securities dealer or Australian financial services licensee.

#### **4.11 Clearing House Electronic Sub-Register System (CHES) and Issuer Sponsorship**

The Company will not be issuing share and option certificates. The Company is a participant in CHES, for those investors who have, or wish to have, a sponsoring stockbroker. Investors who do not wish to participate through CHES will be issuer sponsored by the Company. Because the sub-registers are electronic, ownership of securities can be transferred without having to rely upon paper documentation.

Electronic registers mean that the Company will not be issuing certificates to investors. Instead, investors will be provided with separate statements (similar to a bank account statement) that set out the number of Shares and Options allotted to them under this Prospectus. The notice will also advise holders of their Holder Identification Number or Security Holder Reference Number and explain, for future reference, the sale and purchase procedures under CHES and issuer sponsorship.

Further monthly statements will be provided to holders if there have been any changes in their security holding in the Company during the preceding month.

#### **4.12 Privacy statement**

If you complete an Application Form, you will be providing personal information to the Company. The Company collects, holds and will use that information to assess your application, service your needs as a Shareholder and to facilitate distribution payments and corporate communications to you as a Shareholder.

The information may also be used from time to time and disclosed to persons inspecting the register, including bidders for your securities in the context of takeovers, regulatory bodies including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the share registry.

You can access, correct and update the personal information that we hold about you. If you wish to do so, please contact the share registry at the relevant contact number set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the Privacy Act 1988 (as amended), the Corporations Act and certain rules such as the ASTC Settlement Rules. You should note that if you do not provide the information required on the Application Form, the Company may not be able to accept or process your application.

#### **4.13 Queries**

Any questions concerning the Offer should be directed to Mr Philip Re, Company Secretary, on +61 8 9388 9744.

## 5. COMPANY OVERVIEW

### 5.1 Background

The Company is a public company listed on the official list of ASX.

The Company presently operates as an Australian based mineral exploration company, targeting gold and other base metals. The Company's main project is currently its 100% owned Three Sisters Project located 250km south of Charters Towers in Central Eastern Queensland, which comprises two separate tenements, EPM 14588 and EPM 15517. Further details of this project are contained in Section 10 of this Prospectus. The Company does not plan to spend a material amount of funds on the Three Sisters Project.

As first announced to ASX on 24 March 2010, SAFM intends to change the nature and scale of its activities to include iron ore exploration and production in Brazil.

### 5.2 Acquisition of Brazilian Assets

SAFM has entered into a Share Sale Agreement (**Share Sale Agreement**) with the shareholders of South American Ferro Metals Limited (**Vendors**) to purchase 100% of the issued capital of South American Ferro Metals Limited (**SAFM Holdings**). SAFM Holdings holds 100% of the issued capital in SAFM Mineracao Limitada (**SAFM Brazil**), which in turn owns the Ponto Verde iron ore project situated approximately 55km south of the city of Belo Horizonte in Brazil (**Project**).

In consideration for the acquisition of SAFM Holdings (**Acquisition**), SAFM will issue to the Vendors (pro rata in accordance with their respective interests in SAFM Holdings) 83,977,967 Shares and 251,933,901 performance shares (**Performance Shares**) which shall convert into fully paid ordinary shares in the capital of the Company on a one-for-one basis upon achievement of the relevant milestones, as set out in the following table:

| Class of Performance Share | Number of Performance Shares* | Milestone                                                                                                                                                                                                                                                                  |
|----------------------------|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Class A                    | 83,977,967                    | The production run rate from the Project over a continuous three (3) month period reaching an equivalent of 800,000 tonnes per annum.                                                                                                                                      |
| Class B                    | 83,977,967                    | The Company identifying a JORC compliant resource of iron ore on the Project reaching or exceeding 50,000,000 tonnes.                                                                                                                                                      |
| Class C                    | 83,977,967                    | (i) The Company identifying a JORC compliant resource of iron ore on the Project reaching or exceeding 140,000,000 tonnes; or<br><br>(ii) the production run rate over a continuous twelve (12) month period reaching 800,000 tonnes per annum, whichever may occur first. |
| <b>Total</b>               | <b>251,933,901</b>            |                                                                                                                                                                                                                                                                            |

Full terms of the Performance Shares are set out in Section 14.2 of this Prospectus.

At completion of the Acquisition, the following Vendors will be substantial shareholders of the Company:

- (a) Massif Limited;
- (b) Grafton Resources Investments;
- (c) Tin Zone Holdings Ltd;
- (d) Sun Wing Group Ltd; and
- (e) Topix Management Ltd.

Each of these shareholders will hold under 10% of the share capital of the Company, with the exception of Grafton Resources Limited who will hold 11.6% of the Company. The Company has been advised that none of the Vendors are associates of one another.

### 5.3 Information relating to the Project

#### Location - Belo Horizonte, Brazil

The Project is 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, Southern Brazil. 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.

Brazil is the second largest producer of iron ore in the world.

The State of Minas Gerais produces 71% of Brazil's iron ore which currently totals over 350 million tonnes per annum.



### Project Area

The Project is located within a framework of established infrastructure. It is adjacent to ground held by large Brazilian mining companies Vale, CSN and Ferrous Resources Limited's development areas.

Further information regarding the tenure of the mineral rights in the Project is set out in Section 12 of this Prospectus.

Existing infrastructure on the Ponto Verde Project:

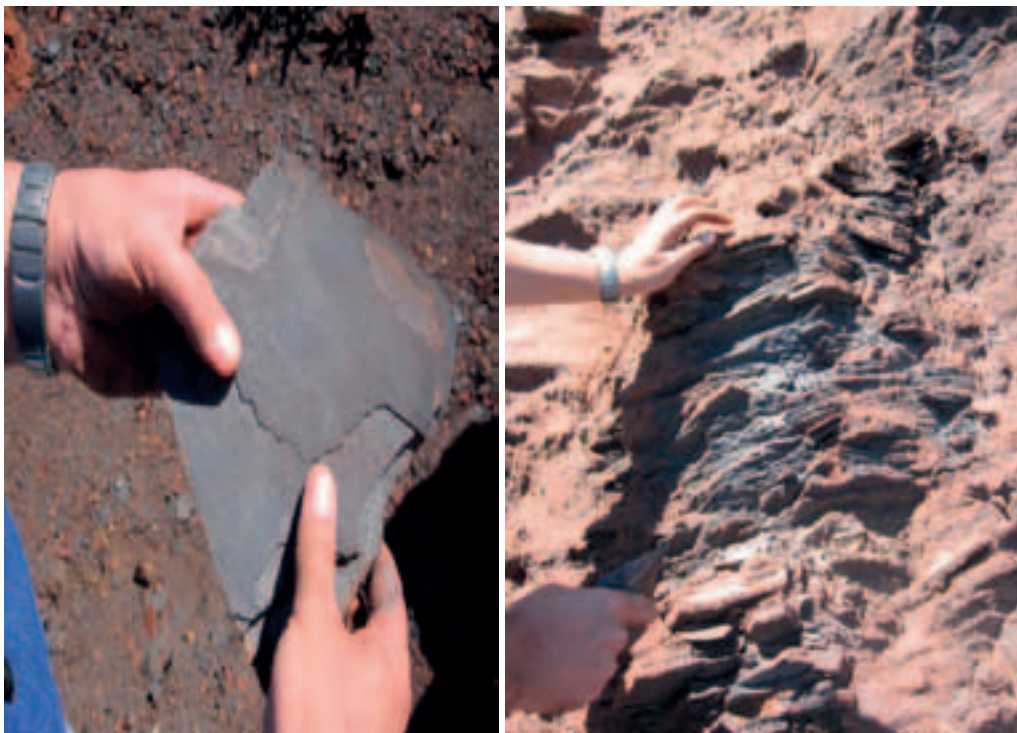


### The Product – Itabirite Iron Ore

The name given to the type of iron ore typically found on the Project is "Itabirite". It is the main type of iron ore extracted, processed and sold.

Itabirite ore is generally easier to beneficiate than magnetite to +60% Fe. It does not require the same level of capital intensive plant and machinery as is required by equivalent lower quality magnetite ore. Therefore the costs of production are lower. It is characterised by layering of iron ore within silica mineralisation.

The final product once crushed and upgraded is +60% Fe and available for sale to export or local markets for the production of steel.



### **Project Exploration**

The Project has an exploration target of between 127 and 157 million tonnes of Itabirite Iron ore at a grade of between 33.3% Fe and 41.1% Fe. Please refer to Section 4.9 of the Independent Geologist's Report in Section 8 of this Prospectus for further information. The potential quality and grade of this mineralisation is conceptual in nature, and there has been insufficient exploration to define a mineral resource. Exploration will be required to further the determination of a mineral resource.

The Company anticipates implementing a drilling program upon completion of the relisting in order to define resources at a JORC compliant level. The Company anticipates commencing production from the Project in late 2010 by the extraction of shallow surface mineralisation.

### **Project Management**

The Project will continue to be managed by the existing local, experienced and proven SAFM Brazil management team in Brazil. The management team is led by President of Brazilian operations, Rodrigo Branco, who has worked in the iron ore industry for over 20 years and previously worked for Vale do Rio Doce (Vale). Rodrigo has the support of mining engineers, geologists, administrative staff and other external specialised contactors who will also assist in developing the Project.

## **5.4 Project geology**

Please refer to the Independent Geologist's Report in Section 8 of this Prospectus for full details of the Project's geology. A summary of this information is set out below.

### Regional Geology

The Project is situated within the limits of the Quadrilátero Ferrífero (the Iron Ore Quadrilateral), in the southern portion of the São Francisco Craton, characterised as a stabilised cratonic core.

The large iron deposits of the Quadrilátero Ferrífero are found in the banded-iron formation (locally known as itabirite) of the Minas Supergroup, which consist of four Paleoproterozoic sequences. The lower unit is composed of alluvial conglomerates and sandstones, which grade towards the top to marine pelitic sediments. The intermediate unit of the Minas Supergroup is the Itabira Group, consisting mainly of chemical metasedimentary rocks. An extensive layer of banded iron formations (**BIFs**) of different compositions occurs at the base of the Itabira Group and, along with hematite and dolomitic phyllite, marble and dolomite comprise the Cauê and the Gandarela Formations, respectively. These formations are overlain by the Piracicaba Group, composed of schists, phyllites, carbonaceous phyllites, quartzites and cherts. A lateritic cap (canga) occurs in the iron deposits and host rocks. The canga is composed of several detrital fragments, usually iron ore or itabirite, cemented by goethite.

The rocks from the area show a complex deformation history, with structure indicating at least three distinct tectonic phases in which anticlines and synclines, topographically inverted and intensely faulted, stand out in addition to aligned ridges and cliffs.

### Geomorphology

The quartzite and the ferruginous concretions (canga) are the most erosion-resistant rocks, and form ridges and hills ranging between 1200 metres and 2000 metres in elevation. These form the boundary of the region known as the Quadrilátero Ferrífero.

In areas where slopes are steep and altitudes are high, soils are relatively shallow and covered with field vegetation. At intermediate heights, some areas are still covered by semi-deciduous seasonal forest and riparian or gallery forests follow part of the watercourses in the region. Between these areas and the field vegetation, the field-cerrado (Brazilian savannas) is dominant.

### Deposit Geology

The Project is located within the eastern flank of the north-south striking Moeda Syncline, and is underlain by rocks of the Itabira and Piracicaba Groups, of the Minas Supergroup. The iron and manganese deposits in the area are related to the Cauê and Gandarela Formations, respectively. The manganese deposits are generally in areas of low relief, whereas the iron ore deposits form steep hills and ridges. Canga deposits in the southern central region of the Moeda Syncline were mined in the past.

The main lithologies present in the Project area are soft itabirite (medium to poor) of the Cauê and Gandarela Formation, clastic metasedimentary rocks (quartzite and phyllite) of the Moeda and Batatal Formations and dolomites and weathered iron-manganese formations of the Gandarela Formation, in addition to Tertiary argillaceous sedimentary deposits, cangas and soil coverage.

The Ponto Verde ore body occurs continuously over more than 2 kilometres, from the southern boundary to the central part of the Project area. In this region, the Cauê formation is oriented towards N30° to 45°E with thickness varying around 100 metres. Thickness variation is controlled by second-order internal folding,

with folds axes oriented NE-SW. These folds produce strong variations in the dip of the layers, ranging from 20° to 85° to both the SE and NW.

### Topography

SAFM Brazil has conducted a topographic survey of all the mined areas, dikes, waste dumps, and other structures within the boundaries of its Mining Permit and a number of other structures outside of its Mining Permit.

In general, the survey conducted by SAFM Brazil is sufficiently detailed and based on good topographic landmarks which were geo-referenced by transposition of coordinates from base stations approved by the IBGE (Brazilian Institute of Geography and Statistics).

### Exploration Target

Information has been gathered by work prepared by the previous vendors, independent contractors and data obtained from the drilling of over 3000 metres (28 drill holes). The Ponto Verde mineralisation is continuous over more than 2 kilometres from the southern boundary of the Project. The Cauê Formation strikes roughly northeast and is about 100 metres thick. The Gandarela Formation overlies the Cauê Formation to the northwest.

Coffey Mining reported the results of exploration drilling and sampling, together with mining and processing studies, in a conceptual study in 2009, compliant with the Brazil Mining Code. The independent geologist has reviewed this in the report that is also included in this prospectus. The independent geologist has determined that the mineralisation can only be reported as a JORC compliant 'Exploration Target'. Coffey Mining is in agreement with this.

The independent geologist reformulated the Brazil compliant tabulation and applied a +5% to -15% potential error to estimate a potential range of tonnage and grade as an Exploration Target for the Project of between 127 million tonnes and 157 million tonnes at a grade of between 33% Fe and 41% Fe. Please refer to Section 4.9 of the Independent Geologist's Report in Section 8 of this Prospectus for further information.

In their Independent Technical Report in this Prospectus, Coffey Mining has disaggregated the deposit sources based on three distinct areas within the Project and presents Exploration Targets for the mineralised units as follows:

- Cauê Itabirite Exploration Target for the Project is between 116 million tonnes and 144 million tonnes at a grade of between 33% Fe and 41% Fe. Other key elements are between 0.8% Manganese (Mn) and 1% Mn, and 0.04% Phosphorous (P) and 0.05% P.
- Gandarela Itabirite Exploration Target for the Project is between 3.9 Million tonnes and 4.8 Million tonnes at a grade of between 35% Fe and 43% Fe. Other key elements are between 3.8%Mn and 4.7%Mn, and 0.04% P and 0.05% P.
- Canga Exploration Target for the Project is between 6 million tonnes and 7.5 million tonnes at a grade of between 43% Fe and 53% Fe. Other key elements are between 0.5%Mn and 0.7%Mn, and 0.05% P and 0.06% P.

The information relating to Exploration Targets should not be considered as estimates of Mineral Resources or Ore Reserves as defined by the JORC Code. The potential quantity and quality is conceptual in nature, since there has been

insufficient work completed to define it beyond Exploration Targets and it is uncertain if further exploration will result in the determination of a Mineral Resource.

### 5.5 Project infrastructure

SAFM Brazil owns the existing refurbished plant and machinery at the Project. The Company intends to undertake a feasibility study to evaluate the upgrading of infrastructure and mining operations to increase production rates. The Company anticipates that production will commence from known near-surface sources and continuation of past mining areas.

Current installed equipment includes a belt feeder, primary jaw crusher, secondary jaw crushers (two operating parallel and one on standby), two double deck screens and belt conveyors.

SAFM Brazil has replaced the entire electrical cabling, some electrical motors, the belt conveyors' accessories and created new electrical and control rooms. The remaining plant infrastructure is also in good condition and is ready to commence operations. An upgrade to wet operation is necessary to allow increased yield and higher ore grades to 65% Fe.

The Project is well served by unpaved roads in good condition and is located close to highways. Regional mains power supply is to be connected and water supply developed from ground water sources within the project area.

Plant infrastructure at Ponto Verde Project:



## 5.6 Mining Operation

Based upon the initial exploration programme, SAFM Mineração Ltda. requested Coffey Mining (Brazil) to undertake a conceptual scoping study to outline a mining operation in the Ponto Verde iron ore deposit in 2009.

Coffey Mining evaluated a scenario based upon processing 6 million tonnes per annum of mined mineralisation. For the mining scenario a simulated mathematical pit was developed using Whittle software, based on economic and geotechnical parameters, and considering the geographical constraints, physical, environmental, legal and property.

The objective in the selection of the conventional pit was to maximize the use of the notional mineralisation. The final pit that was selected estimates mineable mineralisation containing 36.4% to 40.6% Fe without cut-off applied. In relation to this estimate, the potential quantity and grade is conceptual in nature, there has been insufficient exploration to define a mineral resource, and it is uncertain if further exploration will result in the determination of a mineral resource.

The State Environmental Licensing Committee (COPAM) approved a production-mining licence for SAFM's Ponto Verde Project on 28 August 2010. Two of the three environmental licenses required (LP + LI) were formally issued on 30 August 2010. The operation license to allow SAFM to commence production from the Project is expected to be granted in October 2010.

## 5.7 Mineral Processing

Up to 2 million tonnes per annum may be processed through the existing plant from Canga and other near surface lithologies for the sale of Small Lump and Coarse Sinter Feed. The ferrous-manganese Gandarela rock may be mined and blended for sale to local steel mills but investigation for selective mining to exclude Mn-rich material may be necessary.

During this period studies, designs and construction for process plants to match expansion scenarios could be completed. Ore characterisation studies will be required for detailed plant design and the prediction of product quality. Coffey Mining provided conceptual ideas based on industry experience.

The existing 300 tonnes per hour plant with crushing and screening can produce Small Lump, and Coarse and Fine Sinter Feed in the proportions 30% and 15% respectively. The remaining 55%, from settling tank tailings, will be dewatered and stockpiled for future processing to Pellet Feed product. Average grades of Small Lump are expected to be about 61% Fe.

Concept plant scoping to produce 3 million tonnes per annum pellet feed product (over 40% of ROM feed) were investigated. Front end crushing and screening would feed to a concentrator section using jigs or magnetic separators, spirals and flotation. Preference in design should look to maximise Fe recovery and minimise water consumption.

Milling of gravity and magnetic tailings would liberate gangue in a closed cyclone circuit. Re-concentration would produce a final pellet feed product. Similarly flotation circuit tailings would be re-concentrated.

The study considered the site layout, power requirements, water consumption and labour. Water recycling is expected to keep water consumption low.

The final tailings (from the spirals, magnetic separators and flotation cells) would be dewatered and transported to stockpiles for final deposition.

The fine tailings would be conducted to a paste thickener, with the underflow drying in ponds. The tailings will be transported to the tailings piles for deposition.

All water recovered in all dewatering equipment would be recovered and recirculated in the process.

The possible installed electrical equipment will require about 11 MW supply.

## 5.8 Site Layout and Development

The disposal of tailings and the optimised use of water are key factors that will make the project practical. Therefore the use of paste technology is planned for the tailings from the plants, in the form of pulp. To facilitate the waste disposal, parts of lower level and deeper pits will also be considered for later disposal of the tailings paste. This form of disposal allows greater reuse and recycling of process water, allows the gradual waste piling and minimizes the need of building disposal dams.

For the ongoing phases of the project, particularly the feasibility phase, Coffey Mining recommended that the optimization and proposed mine scheduling should be reviewed, to take in consideration of any mineral resources defined by further exploration.

In order to maximize the utilization of resources and minimize the capital and operating costs of the project, a staged mining sequence would be considered in such way as to provide room for as much in-pit waste disposal as possible.

In-pit waste disposal could occur by the end of the third year, if it is necessary, while provision can be made for waste dumps and tailings storage facilities outside of the pits for the first five years of development, without the restrictions and limitation of production capability and performance of equipment. After that, waste and tailings materials would be disposed in the pits already exhausted.

### Transportation and Market

SAFM Brazil will sell its initial products (Coarse Sinter Feed and Small Lumps) to the domestic market using truck haulage. Distances to potential Coarse Sinter Feed customers vary from 36km to 60km. Sale of Small Lump to pig iron producers will be over distances of from 20km to 137km. Expanded sales to the international market will be dependent on SAFM Brazil gaining access, through agreements and contracts, to the MRS rail corridor and the Sepetiba Bay ports.

Vale and others are looking to purchase iron ore for export. SAFM Brazil may also enter the bidding to export as third party partners through the Sepetiba Bay ports. The route for SAFM Brazil's exports is the privately owned MRS railway with a rail loading depot 25km from the Project. The MRS corridor requires 15% of concessionaire port capacity is sold to third parties.

As set out in Section 9 of the Independent Technical Report prepared by Coffey Mining, an ex-mine average price of A\$53.35 per tonne is estimated for initial production, which is in line with pricing levels currently practised in the local market as follows:

|                     |                      |                    |
|---------------------|----------------------|--------------------|
| Coarse Sinter Feed: | US\$22.00 per tonne  | 40% of production. |
| Small Lump:         | US\$75.580 per tonne | 60% of production. |

### Environmental and Occupational Health

Environmental issues inherited with the acquisition of the Project in 2008 delayed short term production plans of SAFM Holdings but SAFM Brazil undertook to a make environmental rectification and remediation, as well as a commitment to compensation. An Environmental Impact Assessment was completed together with an Environmental Impact Report, an Environmental Control Plan, a Conceptual closure plan and Social-environmental proposals. SAFM Brazil's licensing request was voted and approved for operations and the requested licenses (LP and LI) were issued on 30 August 2010. Application for the Operation License has been submitted and is anticipated to be issued in October 2010.

SAFM Brazil has prepared a policy document outlining the company's standards for application of the Brazil Regulatory Standard 22 (occupational health and safety in mining).

SAFM Brazil has addressed the necessary Regulatory Standards and is also aligned with the legal requirements of the Brazilian Ministry of Labour, the Health Ministry and the fire department.

### Development

A conceptual mining study by Coffey Mining for the Project has indicated the foundation for a viable project, subject to several qualifying factors.

Although the geology is well understood and the mineralisation is similar to that elsewhere in the region, resources cannot be reported at this time. The Exploration Target tonnages and grades will require a new drilling programme and the estimation and declaration of JORC compliant mineral resources. Conceptual mining studies have demonstrated the viability of a simple open pit mining operation, subject to confirmation of compliant resources and updated more detailed costing.

Plant process studies have applied knowledge and experience from the well-established local iron ore mining industry and shown how both short term and medium term iron ore products can be extracted to meet market specifications.

SAFM has a strategy for the project development. Product quality and market conditions together with transport scenarios are critical in finalising the production scenarios targeted by the company. Achievement of these targets will require negotiation and integration with the technical studies planned, ensuring expectations can be met and contracts achieved.

Coffey Mining recommends the following:

- (a) short term production to generate cashflow;
- (b) resource evaluation drilling for estimation and declaration of JORC compliant mineral resources;
- (c) metallurgical testwork to achieve the targeted product qualities; and

- (d) pre-feasibility studies for project development of larger scale production.

An exploration and development budget for the Ponto Verde Project has been proposed covering the first two-year period following listing. The total proposed budget is A\$15 million (as set out below). Coffey Mining consider that the proposed expenditure is appropriate given the prospectivity and potential of the Project and is sufficient to satisfy the statutory expenditure requirements for the licenses. The total proposed expenditure is considered by Coffey Mining to be consistent with achieving a Pre-feasibility Study level of detail depending on the outcomes of the programme.

**Ponto Verde Project Budget (A\$ '000):**

|                                          | Year 1           | Year 2           | TOTAL             |
|------------------------------------------|------------------|------------------|-------------------|
| Ponto Verde – JORC Drill Programme       | 2,500,000        |                  | 2,500,000         |
| Upgrade to existing plant infrastructure | 2,000,000        |                  | 2,000,000         |
| Ongoing Project Evaluation               |                  | 2,500,000        | 2,500,000         |
| Working Capital and Feasibility Studies  | 3,000,000        | 4,050,000        | 7,050,000         |
| Expenses of the Offer                    | 950,000          |                  | 950,000           |
| <b>Total</b>                             | <b>8,450,000</b> | <b>6,550,000</b> | <b>15,000,000</b> |

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## 6. RISK FACTORS

### 6.1 Introduction

The Shares offered under this Prospectus are considered highly speculative. An investment in the Company is not risk free and the Directors strongly recommend potential investors to consider the risk factors described below, together with information contained elsewhere in this Prospectus, and to consult their professional advisers before deciding whether to apply for Shares pursuant to this Prospectus.

There are specific risks, which relate directly to the Company's business. In addition, there are other general risks, many of which are largely beyond the control of the Company and the Directors. The risks identified in this section, or other risk factors, may have a material impact on the financial performance of the Company and the market price of the Shares.

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed.

### 6.2 Change in nature and scale of activities

As part of the Company's change in nature and scale of activities, ASX will require the Company to re-comply with Chapters 1 and 2 of the ASX Listing Rules. This Prospectus is issued to assist the Company to re-comply with these requirements.

The Company will be suspended from Official Quotation from the time of the General Meeting and will not be reinstated until satisfaction of the conditions to the Offer and ASX approving the Company's recompliance with Chapters 1 and 2 of the ASX Listing Rules.

There is a risk that the Company may not be able to meet the requirements of ASX for re-quotation on the ASX. In the event the conditions to the Offer are not satisfied or the Company does not receive conditional approval for re-quotation on ASX then the Company will not proceed with the Offer and will repay all application monies received.

### 6.3 Risks specific to the Company

#### (a) Risks associated with operations in Brazil

The Project is located in Brazil and the Company will be subject to the risks associated with operating in that country, including various levels of political, economic and other risks and uncertainties. These risks and uncertainties include, but are not limited to, terrorism, hostage taking, military repression, extreme fluctuations in currency exchange rates, high rates of inflation, labour unrest, the risks of war or civil unrest, expropriation and nationalization, renegotiation or nullification of existing concessions, licences, permits and contracts, illegal mining, changes in taxation policies, restrictions on foreign exchange and repatriation and changing political conditions, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Changes, if any, in mining or investment policies or shifts in political attitude in Brazil may adversely affect the operations or profitability of the Company. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, foreign currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety.

Failure to comply strictly with applicable laws, regulations and local practices relating to mineral rights applications and tenure, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

Outcomes in courts in Brazil may be less predictable than in Australia, which could affect the enforceability of contracts entered into by the Company or its subsidiaries in Brazil.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the operations or profitability of the Company. The Company has made its investment and strategic decisions based on the information currently available to the Directors, however should there be any material change in the political, economic, legal and social environments in Brazil, the Directors may reassess investment decisions and commitments to assets in Brazil.

(b) **Exploration and production risks**

The business of iron ore exploration, project development and production involves risks by its very nature. To prosper, it depends on the successful exploration appraisal and development of economic iron ore reserves. Operations, such as design and construction of efficient recovery and processing facilities, competent operational and managerial performance and efficient distribution and marketing services are required to be successful. In particular, exploration is a speculative endeavour whilst production operations can be hampered by force majeure circumstances, engineering difficulties, cost overruns, inconsistent recovery rates and other unforeseen events.

The outcome of exploration programs will affect the future performance of the Company and its Shares. If, and when, SAFM commences production, the production may be curtailed or shut down for considerable periods of time due to any of the following factors:

- (i) disruptions to the transport chain being road, barge and rail;
- (ii) port infrastructure and ocean freight;
- (iii) a lack of market demand;
- (iv) government regulation;
- (v) production allocations; and
- (vi) force majeure.

These curtailments may continue for a considerable period of time resulting in a material adverse effect on the results of operations and financial condition of SAFM.

Further, the exploration for and production of iron ore involves certain operating hazards, such as:

- (i) failure and or breakdown of equipment;
- (ii) adverse geological, seismic and geotechnical conditions;
- (iii) industrial accidents;
- (iv) labour disputes;
- (v) adverse weather conditions;
- (vi) pollution; and
- (vii) other environmental hazards and risks.

Any of these hazards could cause the Company to suffer substantial losses if they occur. SAFM may also be liable for environmental damage caused by previous owners of the property SAFM holds. As a result, substantial liabilities to third parties or governmental entities may be incurred, the payment of which could reduce or eliminate funds available for acquisitions, exploration and development or cause SAFM to suffer losses.

The future exploration activities of SAFM may not be successful. Unsuccessful exploration activities could have a material adverse effect on the results of operations and financial condition. SAFM can commence production at the Project immediately upon obtaining of all relevant licenses, however, it cannot guarantee that it will be able to commence production from the Company's initial exploration target.

(c) **Title risk**

Interests in mineral rights in Brazil are governed by Brazilian legislation. A mining right is for an open-ended term, provided certain requirements are met, including lodgement of reports, payment of royalties and compliance with environmental licence conditions and environmental legislation. Consequently, the Company could lose title to or its interest in the Mining Permit if these requirements are not met.

It is noted that there is a dispute between the previous owner of the Mining Permit and a third party as to ownership of the surface rights over 32 hectares within the 150 hectare Mining Permit. Depending on the outcome of this dispute, SAFM Brazil may be required to pay the owner of the surface rights a royalty of 1% of net revenue from the sale of iron ore produced from the disputed area. Despite the existence of this dispute, SAFM Brazil is entitled to exploit the deposit under the Mining Permit without hindrance.

(d) **Environmental and licensing risk**

The Company's operations in Brazil will be subject to various regulations regarding environmental matters and the discharge of hazardous waste

and materials. Development of any iron ore resources will be dependent on the project meeting environmental guidelines and gaining approvals by government authorities. Whilst the Company intends to conduct its activities in an environmentally responsible manner, risks arise in relation to compliance with these regulations and approvals. The introduction of more stringent regulations and conditions may also adversely affect the Company.

The Mining Permit is located adjacent to a nature park. The Company has obtained legal advice confirming that there are no restrictions applicable to mining activities under the Mining Permit, as the area of the Mining Permit does not overlap the nature park. However, a change in government policy with respect to mining near nature parks could impact on the Company's ability to conduct activities on within the Mining Permit area, which could adversely affect the Company.

SAFM is awaiting receipt of its operational environmental license (LO), which is expected to be received October 2010. Whilst the Company believes that the grant of the LO is a mere formality, there is a risk that LO may not be obtained for some time, or that the relevant governmental agency may impose some further conditions which would need to be fulfilled before the LO is granted. SAFM cannot commence production from the Project until the LO is granted.

(e) **Iron ore price volatility**

Upon completion of the Acquisition, a significant proportion of the Company's revenues and cash flows are likely to be derived from the sale of iron ore. Therefore the financial performance of SAFM is sensitive to the iron ore price. Iron ore prices are affected by numerous factors and events that are beyond the control of SAFM. These factors and events include general economic activity, world demand, costs of production by other iron ore producers and other matters such as inflationary expectations, interest rates, currency exchange rates (particularly the strength of the US dollar) as well as general global economic conditions and political trends.

If iron ore prices should fall below or remain below SAFM's costs of production for any sustained period due to these or other factors and events, the Company's exploration and production could be delayed or even abandoned. A delay in exploration or production or the abandonment of one or more of SAFM's projects may require SAFM to revise downwards its iron ore reserves and will have a material adverse effect on SAFM's production, earnings and financial position.

(f) **Exchange rate risk**

If SAFM achieves success leading to mineral production, the revenue it will derive through the sale of iron ore exposes the potential income of the Company to commodity price and exchange rate risks.

Revenue of iron ore sold in Brazil may be received in Brazilian reais, whereas the income and expenditure of SAFM are and will be taken into account in Australian currency. Furthermore, international prices of various commodities are denominated in United States dollars; therefore, international sales of iron ore are likely to be denominated in United States dollars. These factors expose SAFM to the fluctuations and

volatility of the rate of exchange between the United States dollar and the Australian dollar as determined in international markets.

(g) **Unforeseen expenditure risk**

Expenditure may need to be incurred that has not been taken into account in the preparation of this Prospectus. Although the Company is not aware of any such additional expenditure requirements, if such expenditure is subsequently incurred, this may adversely affect the expenditure proposals of the Company.

(h) **Additional requirements for capital**

The Directors expect that the Company will have sufficient capital resources to enable the Company to achieve its initial business objectives upon settlement of the Share Sale Agreement.

However, the Directors can give no assurances that such objectives will in fact be met without future borrowings or capital raisings. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and scale back its expansion and development programs. If the Company is successful in meeting its initial objectives with respect to the Project, then additional capital may be required to further develop its operations and pursue business opportunities.

In the Independent Technical Report in Section 9 of this Prospectus, Coffey Mining has referred to material additional capital requirements for the development of the Project. The actual costs of this development may materially exceed the amounts referred to in the Independent Technical Report.

(i) **No JORC compliant resource**

No project that the Company has an interest in has a JORC resource. Further exploration is required to determine the extent of the Company's viable mineral deposits.

There can be no assurance that exploration of the Project, or any other tenements that may be acquired by the Company in the future, will result in the discovery of JORC Code resource classification.

(j) **Government policy changes and legal risk**

Government action or policy change (in particular, by Australian or Brazilian governments) in relation to access to lands and infrastructure, compliance with environmental regulations, export restrictions, taxation, royalties and subsidies may adversely affect the Company's operations and financial performance.

The Company's Brazilian operations will be governed by a series of Brazilian laws and regulations. Breaches or non-compliance with these laws and regulations can result in penalties and other liabilities. These may have a material adverse impact on the financial position, financial performance, cashflows, growth prospects and share price of the Company.

These laws and regulations may be amended from time to time, which may also have a material adverse impact on the financial position, financial performance, cash flows, growth prospects and share price for the Company.

While the Company is reasonably familiar with the Brazilian regulatory regime and will undertake all reasonable due diligence in assessing and managing the risks associated with iron ore exploration and production in Brazil (and other countries in which it may invest), the legal and political conditions of the country and any changes thereto are outside the control of the Company.

The introduction of new legislation or amendments to existing legislation by governments, developments in existing common law, or the respective interpretation of the legal requirements in any of the legal jurisdictions which govern the Company's operations or contractual obligations, could impact adversely on the assets, operations and, ultimately, the financial performance of the Company and the value of its Shares. In addition, there is a commercial risk that legal action may be taken against the Company in relation to commercial matters.

(k) **Reliance on key management**

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel.

In particular, the Company intends that the day-to-day management of the Project will remain with the existing senior management and key personnel in SAFM Brazil, who have the experience and knowledge required to manage iron ore exploration and production in Brazil. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these personnel cease their employment.

(l) **Competition**

There is a risk that the Company will not be able to continue to compete profitably in the competitive industry in which it intends to operate. The potential exists for the nature and extent of the competition to change rapidly, which may cause loss to the Company.

(m) **Third party risks**

The operations of the Company will require the involvement of a number of third parties, including suppliers, contractors and customers. Financial failure, default or contractual non-compliance on the part of such third parties may have a material impact on the Company's operations and performance. It is not possible for the Company to predict or protect itself against all such risks.

(n) **Management of growth**

There is a risk that management of the Company will not be able to implement the Company's growth strategy and strategic direction effectively which may affect the Company's financial performance.

(o) **Insurance**

The Company will, where possible and economically practicable, endeavour to mitigate some project and business risks by procuring relevant insurance cover. However, such insurance cover may not always be available or economically justifiable and the policy provisions and exclusions may render a particular claim by the Company outside the scope of the insurance cover.

While the Company will undertake all reasonable due diligence in assessing the creditworthiness of its insurance providers, there will remain the risk that an insurer defaults in payment of a legitimate claim by the Company under an insurance policy.

**6.4 General risks**

(a) **Economic**

General economic conditions, movements in interest and inflation rates, commodity prices and currency exchange rates may have an adverse effect on SAFM's exploration, development and production activities, as well as on its ability to fund those activities.

Further, share market conditions may affect the value of the Company's quoted securities regardless of SAFM's operating performance. Share market conditions are affected by many factors such as:

- (i) general political and economic outlook in Australia and Brazil;
- (ii) interest rates and inflation rates;
- (iii) currency fluctuations;
- (iv) changes in investor sentiment toward particular market sectors (in particular iron ore);
- (v) industrial and landowner issues and disputes; and
- (vi) terrorism or other hostilities.

(b) **Market conditions**

Share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- (i) general economic outlook;
- (ii) interest rates and inflation rates;
- (iii) changes in investor sentiment toward particular market sectors;
- (iv) the demand for, and supply of, capital; and
- (v) terrorism or other hostilities.

The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and resource exploration stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

(c) **Dividends**

Any future determination as to the payment of dividends by the Company will be at the discretion of the Directors and will depend on the availability of distributable earnings and operating results and financial condition of the Company, future capital requirements and general business and other factors considered relevant by the Directors. No assurance in relation to the payment of dividends or franking credits attaching to dividends can be given by the Company.

(d) **Taxation**

The acquisition and disposal of Shares will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in the Company are urged to obtain independent financial advice about the consequences of acquiring Shares from a taxation viewpoint and generally.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisors accept no liability and responsibility with respect to the taxation consequences of subscribing for Shares under this Prospectus.

(e) **Investment speculative**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Shares offered under this Prospectus

Therefore, the Shares to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those Shares.

Potential investors should consider that the investment in the Company is highly speculative and should consult their professional advisers before deciding whether to apply for Shares pursuant to this Prospectus.

---

## 7. EXISTING & PROPOSED BOARD & MANAGEMENT

### 7.1 Directors

#### **Mark Foster - *Existing Chairman***

Mr Foster has practised as a corporate lawyer since 1996 having graduated from the University of Western Australia with a Bachelor of Laws and Commerce (majoring in accounting). He is currently a partner with corporate law firm Steinepreis Paganin.

Mr Foster has significant experience in corporate and resources law having advised on numerous initial public offers and secondary capital raisings, all forms of acquisition and mergers (including takeovers and schemes of arrangement) and project acquisition and divestments generally.

Mr Foster is also a member of FINSIA (formerly the Securities Institute of Australia).

It is proposed that Mr Foster will resign as a director of the Company upon completion of the Acquisition.

#### **Philip Re – *Existing Managing Director***

Philip Re is a Director of Parkinson Corporate Pty Ltd where he provides corporate advisory services. Mr Re is a Chartered Accountant and, a Chartered Secretary. Mr Re is a Member of the Institute of Company Directors.

In recent years Mr Re has been involved as a director and company secretary for a number of public companies involving transactions in the mining exploration industry. Currently Mr Re is the company secretary Promesa Limited. Mr Re previously held the role as company secretary for Transit Holdings Limited, and director of Meridian Minerals Limited.

Mr Re is Chairman of the charity organisation “The Better Life Foundation WA”.

It is proposed that Mr Re will continue in the role of Non Executive Director upon completion of the Acquisition.

#### **Paul Lloyd – *Existing Non Executive Director***

Paul Lloyd is a Chartered Accountant with over 25 years’ commercial experience. Mr Lloyd operates his own corporate consulting business, specialising in the area of corporate, financial and management advisory services. After commencing his career with an international accounting firm, he was employed for approximately 10 years as the General Manager of Finance for a Western Australian based international drilling contractor working extensively in Asia and Africa.

In 2006, Mr. Lloyd was involved in the listing of Beacon Minerals Limited and Target Energy Limited on ASX and he remains a director of both companies.

#### **Nicholas Revell – *Existing Non Executive Director***

Nicholas Revell has 18 years’ experience in mine geology and exploration geology. He established an independent consultancy business 6 years ago and specialises in mine development, due diligence and property valuation at all stages of development. He has wide experience in a number of commodities

including gold, base metals and iron ore and qualifies as a Competent Person as defined by the VALMIN Code and JORC Code.

Mr Revell is Chief Geologist at International Gold Mining Limited, a company listed on the Toronto Stock Exchange. Previously Nick was the chief geologist at Fortescue Metals Group and worked for Crescent Gold Limited (formerly Apollo Gold Mining Limited), Auriongold Limited (formerly Goldfields Limited), North Limited, Renison Goldfields Limited and St Barbara Limited (formerly St Barbara Mines Limited).

It is proposed that Mr Revell will resign as a Director of the Company upon completion of the Acquisition.

#### **Terence Willsteed – Proposed Chairman**

Mr Willsteed holds a Bachelor of Engineering (Mining) with Honours and a Bachelor of Arts. He is a Fellow of the Australasian Institute of Mining and Metallurgy, a Registered Member of the Society of Mining Engineers and a Member of the Australian Institute of Company Directors. Since 1973 he has been the principal of consulting mining engineers Terence Willsteed & Associates.

Mr Willsteed's 50 year career in the mining industry has included senior operational and engineering management positions with Zinc Corporation, Mt Isa Mines Limited and Consolidated Goldfields Australia Limited. His recent public directorships include European Gas Limited, Austral Gold Limited, International Ferro Metals Limited, Citigold Corporation Limited, Vantage Goldfields Limited and Goldsearch Limited. In his consulting experience, Mr Willsteed has been involved in the assessment and development of a wide range of mineral, coal and oil shale projects, and has participated in the management of developing and operating mineral projects both in Australia and internationally.

#### **Stephen Fabian – Proposed Managing Director**

Mr. Fabian is the founder of SAFM Brazil, and is a qualified mining engineer with over 25 years of experience in the mining sector. He is an Australian born citizen who lives in Brazil, and can speak fluent Portuguese.

Mr. Fabian's career spans across the mining and finance industries and includes past positions with County NatWest in Australia and London and Rock Capital Partners in the United Kingdom. He has been responsible for financing new mining developments in emerging markets such as the former Soviet Union, West Africa and South America and providing resources based research to the bank's clients including major investment funds.

Mr. Fabian was instrumental in the founding of Ferrous Resources Limited, a company developing iron ore properties in Brazil. He is also a principal and director of the Genus Capital Fund which is now listed on the London Stock Exchange as the Baker Steel Resource Trust ("BSRT"). BSRT presently holds an investment in SAFM Holdings.

#### **Stephen Turner – Proposed Non Executive Director**

Mr Turner is a Chartered Accountant with over 20 years resources experience. Until last year he was Chief Executive Officer of International Ferro Metals Limited; a South African based integrated mining and smelting company which produces

over 3% of the global ferrochrome supply. International Ferro Metals Limited is listed on the London Stock Exchange and Mr Turner is now its Deputy Chairman.

Mr Turner is the non-executive chairman on Vantage Goldfields Limited, an Australia gold company operating in South Africa and a non-executive director of Iluka Resources Limited, the world's largest producer of zircon.

Mr Turner has delivered resource projects in Australia, Southern Africa, Fiji, New Caledonia and the Solomon Islands. He was a founding director of the Australian subsidiary of PSG Investment Bank, then South Africa's fifth largest investment bank. He has raised equity capital in Australia, the UK, Hong Kong, Malaysia and the USA.

## 7.2 Management

The Project will continue to be managed by the existing local, experienced and proven SAFM management team in Brazil. The management team is led by the President of Brazilian Operations, Rodrigo Branco, who has worked in the iron ore industry for over 20 years and previously worked for Vale do Rio Doce (Vale). Rodrigo has the support of mining engineers, geologists, administrative staff and other external specialised contactors who will also assist in developing the Project.

### **Rodrigo Branco – President Brazilian Operations**

Mr Branco is a Brazilian citizen with a Bachelor of Economics degree from the University of Minas Gerais. Mr Branco has over 20 years experience in the iron ore industry working in major companies such as Vale, with passage in operations of Carajás Mines and the Commercial Department, CSN and Samitri.

## 7.3 Corporate Governance

The primary responsibility of the Board is to represent and advance shareholders interests and to protect the interests of all stakeholders. To fulfil this role the Board is responsible for the overall corporate governance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

The responsibilities of the Board include:

- (a) protection and enhancement of shareholder value;
- (b) formulation, review and approval of the objectives and strategic direction of the Company;
- (c) monitoring the financial performance of the Company by reviewing and approving budgets and monitoring results;
- (d) approving all significant business transactions including acquisitions, divestments and capital expenditure;
- (e) ensuring that adequate internal control systems and procedures exist and that compliance with these systems and procedures is maintained;
- (f) the identification of significant business risks and ensuring that such risks are adequately managed;

- (g) the review of performance and remuneration of executive Directors and key staff;
- (h) the establishment and maintenance of appropriate ethical standards;
- (i) evaluating and, where appropriate, adopting with or without modification the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

The Board recognises the need for the Company to operate with the highest standards of behaviour and accountability.

The Company is anticipating substantial growth and is therefore presently considering the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations to determine an appropriate system of control and accountability to best fit its business and operations commensurate with these guidelines.

The Company seeks to follow the best practice recommendations for listed companies where appropriate for its size and operations. In cases where the Company determines it would be inappropriate to follow the principles because of its circumstances, the Company will provide reasons for not doing so in its Annual Report. One such instance is the Board presently considers the Company's size and scope of activities does not justify the establishment of special or separate committees at this stage, preferring to manage the Company through the full Board of Directors.

#### ***The Board of Directors***

The Company's constitution provides that the number of Directors shall not be less than three and not more than 9. There is no requirement for any share holding qualification.

If the Company's activities increase in size, nature and scope, the size of the Board will be reviewed periodically and the optimum number of Directors required to adequately supervise the Company's activities will be determined within the limitations imposed by the constitution and as circumstances demand.

The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and application of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Company's scope of activities, intellectual ability to contribute to Board duties and physical ability to undertake Board duties and responsibilities.

Directors are initially appointed by the full Board, subject to election by shareholders at the next general meeting. Under the Company's constitution the tenure of a Director (other than alternate Directors and the Managing Director) is subject to reappointment by shareholders not later than the third anniversary following his or her last appointment. Subject to the requirements of the Corporations Act, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a Director. A Managing Director may be appointed for the period and on terms the Directors think fit and, subject to the terms of any agreement entered into, the appointment may be revoked on notice.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity as to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

#### ***Appointments to Other Boards***

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other boards.

#### ***Independent Professional Advice***

The Board has determined that individual Directors have the right in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. With the exception of expenses for legal advice in relation to Director's rights and duties, the engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably.

#### ***Continuous Review of Corporate Governance***

Directors will consider, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as Directors of the Company. Such information must be sufficient to enable the Directors to determine appropriate operating and financial strategies from time to time in light of changing circumstances and economic conditions. The Directors recognise that mineral exploration is a business with inherent risks and that operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of the Company.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of any formal corporate governance committees will be given further consideration.



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29 September 2010

RVR001

The Directors  
Riviera Resources Ltd  
Level 1, 322 Hay St  
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## THE PONTO VERDE IRON ORE PROJECT, PONTO VERDE MINE (SAFM), MINAS GERAIS, BRAZIL

SRK Consulting (Australasia) Pty Ltd (“SRK”), herewith submits our Independent Geologist’s Report on the Ponto Verde Iron Ore Project (the “PV Project”) of Riviera Resources Limited (the “Company” or “RVE”), including the Ponto Verde Mine, in Minas Gerais, Brazil. This letter is part of the Report.

The Company has executed a Heads of Agreement with South American Ferro Metals Limited to purchase 100% of its Brazilian subsidiary – SAFM Mineração (SAFM) – which owns the mineral rights and property of the Ponto Verde Iron Ore Mine located at Fazenda Retiro Novo. SRK was approached by RVE to perform an independent technical assessment of this property. In order to conduct that assessment in the most efficient way, SRK AU utilised expertise from SRK Brazil, based at Belo Horizonte, Minas Gerais, to perform some of the technical work.

Field visits were conducted by SRK Brazil on 20 and 22 April 2010. The first site visit dealt with the activities related to exploration work, and the current geotechnical and project conditions were assessed. During the second site visit, the status of the existing ore processing plant, the production history and the planning of future disposal of tailings were evaluated. In addition, the environmental and mining permit situation of the mine were discussed.

The purpose of this Report is to provide an Independent Geologist’s Report on the project for inclusion in a prospectus for the Company to raise A\$15 M through the issue of 41,666,667 shares at A\$0.36 to support further exploration and carry out site infrastructure development at the PV project. The prospectus is for the Australian Securities Exchange (“ASX”). This Independent Geologist’s Report has been prepared in accordance with the Rules Governing the Listing of Securities on the ASX. The reporting standard adopted by this report is VALMIN – this Report is an Independent Technical Report, not a Valuation Report and therefore does not express an opinion as to the value of mineral assets, nor to the ‘fairness and reasonableness’ of any transactions. Aspects reviewed in this Report may include product prices, socio-political issues and environmental considerations; however, SRK does not express an opinion regarding the specific value of the assets and tenements involved. It should be noted that the responsible authors of this Report are Members of The AusIMM or the AIG and, as such, are bound by the VALMIN Code.

SRK Consulting (Australasia) Pty Ltd  
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29 September 2010

The evidence upon which the estimated Exploration Target are based includes the deposit geology, drilling and sampling information. The basis upon which SRK forms its view of the Exploration Target estimates includes the site visits of SRK's staff to the subject properties, interviews with the Company's management and site personnel regarding the drilling and sampling database and the procedures and parameters used for the estimates by the Company's external consultants.

SRK has not undertaken an audit of the Company's data or reviewed the tenement status with respect to any legal or statutory issues.

#### Statement of Independence

Neither SRK nor any of the authors of this Report have any material present or contingent interest in the outcome of this Report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK has no prior association with RVE in regard to the mineral assets that are the subject of this Report. SRK has no beneficial interest in the outcome of the technical assessment being capable of affecting its independence.

SRK's fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. The payment of that professional fee is not contingent upon the outcome of the Report.

#### Consents

SRK consents to this Report being included, in full, in the prospectus for issue by RVE to prospective investors, in the form and context in which the technical report is provided, and not for any other purpose.

SRK provides this consent on the basis that the technical assessments expressed in this letter, the Summary and in the individual sections of this Report are considered with, and not independently of, the information set out in the complete Report.

Neither the whole, nor any part of this Report, nor any reference to it, may be included in any document for any other purpose without SRK's written consent to the form and context in which it appears.

#### Disclaimer

The opinions expressed in this Report have been based on the information supplied to SRK by RVE and SAFM. The opinions in this Report are provided in response to a specific request from RVE to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them.

Yours faithfully

**SRK Consulting**



**Peter Williams**  
Corporate Consultant (Geology)



**Daniel Guibal**  
Corporate Consultant (Geostatistics and Resources)

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## List of Abbreviations

| Abbreviation       | Meaning                                                                                                                                                                                                                                                                                        |
|--------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AIG                | Australian Institute of Geoscientists                                                                                                                                                                                                                                                          |
| APEF               | Authorisation for Forest Exploration                                                                                                                                                                                                                                                           |
| APP                | Permanent Areas of Preservation                                                                                                                                                                                                                                                                |
| ASX                | Australian Securities Exchange                                                                                                                                                                                                                                                                 |
| AusIMM             | Australian Institute of Mining and Metallurgy                                                                                                                                                                                                                                                  |
| BIFs               | banded iron formations                                                                                                                                                                                                                                                                         |
| CFEM               | Financial Compensation for the Exploitation of Mineral Resources                                                                                                                                                                                                                               |
| CONAMA             | National Council of the Environment                                                                                                                                                                                                                                                            |
| DB                 | drilling database                                                                                                                                                                                                                                                                              |
| DNPM               | Brazil's National Department of Mineral Production                                                                                                                                                                                                                                             |
| E                  | east                                                                                                                                                                                                                                                                                           |
| EIA                | Environmental Impact Assessment                                                                                                                                                                                                                                                                |
| E–W                | east-west                                                                                                                                                                                                                                                                                      |
| IBGE               | Brazilian Institute of Geography and Statistics                                                                                                                                                                                                                                                |
| JORC Code          | Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC), December 2004. |
| LI                 | Installation License                                                                                                                                                                                                                                                                           |
| LO                 | Operation License                                                                                                                                                                                                                                                                              |
| LP                 | Preliminary License                                                                                                                                                                                                                                                                            |
| m                  | metre                                                                                                                                                                                                                                                                                          |
| M                  | million                                                                                                                                                                                                                                                                                        |
| Mt                 | million tonnes                                                                                                                                                                                                                                                                                 |
| Mtpa               | million tonnes per annum                                                                                                                                                                                                                                                                       |
| N                  | north                                                                                                                                                                                                                                                                                          |
| NE                 | northeast                                                                                                                                                                                                                                                                                      |
| NW                 | northwest                                                                                                                                                                                                                                                                                      |
| PCA                | Environmental Control Plan                                                                                                                                                                                                                                                                     |
| QA/QC              | Quality Assurance / Quality Control                                                                                                                                                                                                                                                            |
| RIMA               | Environmental Impact Report                                                                                                                                                                                                                                                                    |
| RoM                | run of mine                                                                                                                                                                                                                                                                                    |
| S                  | south                                                                                                                                                                                                                                                                                          |
| SAFM               | SAFM Mineração                                                                                                                                                                                                                                                                                 |
| SE                 | southeast                                                                                                                                                                                                                                                                                      |
| SRK                | SRK Consulting (Australasia) Pty Ltd                                                                                                                                                                                                                                                           |
| SW                 | southwest                                                                                                                                                                                                                                                                                      |
| t                  | tonne                                                                                                                                                                                                                                                                                          |
| The Company or RVE | Riviera Resources Limited                                                                                                                                                                                                                                                                      |
| The PV Project     | The Ponto Verde Iron Ore Project                                                                                                                                                                                                                                                               |

| Abbreviation | Meaning                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|--------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| tpa          | tonnes per annum                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| UC           | Units of Conservation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| VALMIN Code  | <p>The VALMIN Code establishes standards of best practice for the technical assessment and valuation of mineral and petroleum assets and securities by geologists involved in the preparation of independent expert's reports. AIG and the Minerals Council of Australia joined with AusIMM in developing a revised version of the code in 2005, the first major revision in 10 years.</p> <p>The Australian Institute of Geoscientists supports the VALMIN Code and endorses it as a statement of industry and professional best practice. The VALMIN Code is binding on members of AIG when preparing public independent expert reports as required by the Corporations Act covering mineral and petroleum assets and securities.</p> |
| W            | west                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

## Glossary of Technical Terms

| Term              | Meaning                                                                                                      |
|-------------------|--------------------------------------------------------------------------------------------------------------|
| Anticline         | Folded rocks that are convex up                                                                              |
| Archean           | An era of geological time (older than 2,500 million years)                                                   |
| Canga             | Sediment formed from weathered ironstone                                                                     |
| Carbonates        | Rocks composed mainly of calcium carbonate                                                                   |
| Cherts            | Sediment formed by precipitation of silica from seawater                                                     |
| Colluvium         | Loose bodies of sediment that have been deposited at the bottom of a low-grade slope, transported by gravity |
| Cratonic          | A large portion of a crust that has been relatively undisturbed since the Precambrian era                    |
| Diabase           | A class of intrusive igneous rocks with 48%-54% SiO <sub>2</sub>                                             |
| Dolomite          | A rock composed of calcium magnesium carbonate                                                               |
| Ferruginous       | Containing abundant iron                                                                                     |
| Gabbro            | A class of intrusive igneous rocks with 48%-54% SiO <sub>2</sub> and with large crystals                     |
| Granite           | An intrusive igneous rock with abundant quartz and feldspar                                                  |
| Greenstone belt   | A sequence of rocks composed dominantly of dark coloured rocks                                               |
| Itabirite         | A type of banded iron formation                                                                              |
| Lithostratigraphy | A subdivision of rock units based on rock types.                                                             |
| Mafic             | Dark coloured                                                                                                |
| Manganese         | Chemical element                                                                                             |
| Manganiferous     | Containing manganese                                                                                         |
| Paleoproterozoic  | An era of geological time between 1500million years and 2500 million years                                   |
| Pegmatite         | A coarse grained granitic rock                                                                               |
| Pelitic           | A rock formed by the metamorphism of mudstone                                                                |
| Phyllite          | A metamorphic rock formed at a low metamorphic grade                                                         |
| Potassium         | Chemical element                                                                                             |
| Quartzites        | A metamorphic rock formed from sandstone                                                                     |
| Riparian          | Related to an environment at the interface between a river and the land                                      |
| Schist            | A strongly foliated metamorphic rock                                                                         |
| Syncline          | Folded rocks that are concave up                                                                             |
| Tectonic          | Related to earth processes on a continental scale                                                            |
| Volcanoclastic    | Formed or associated with a volcano                                                                          |

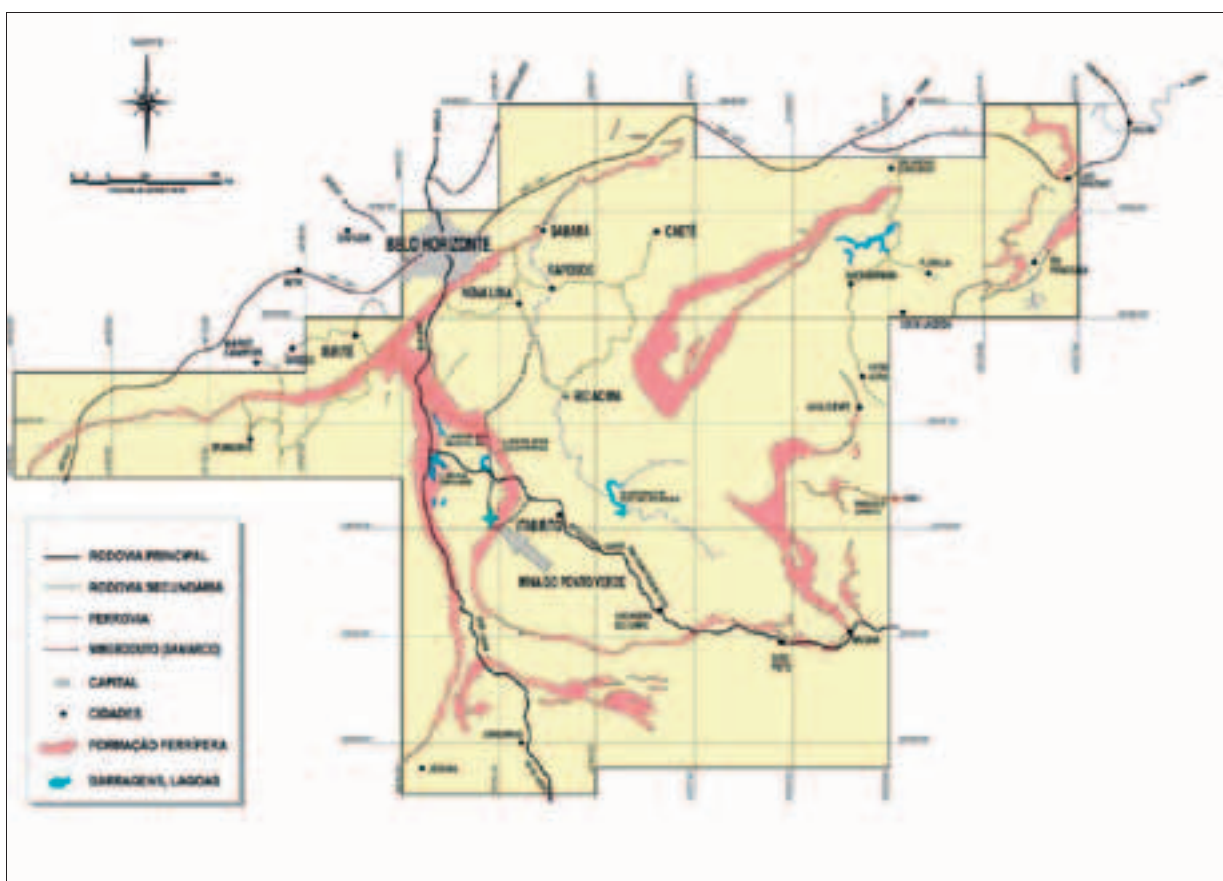
## 1 Property Description and Localisation

The Ponto Verde mine is located at Fazenda Retiro Novo, district of Itabirito, in the State of Minas Gerais, on the western slope of the Serra das Serrinhas (or Serra dos Inconfidentes), on the left bank of Aredes Creek, as illustrated in Figure 1-1.

The municipality of Itabirito is located approximately 55 km southeast of Belo Horizonte. Access to the Ponto Verde area is by good quality asphalt roads, with a short final section of good quality dirt road. This final section can be either 5 or 7 km, depending on alternative road access routes.

Generally, all roads are in good condition, as they are used year-round by trucks transporting iron ore from nearby mines.

The right to the mining area is granted by the mineral permit (DNPM - 831929/1984) currently belonging to SAFM. The total transfer of mining rights occurred on 16 December 2008 (Source: DNPM website). The area covered by the permit is shown in Figure 1-2 along with the limits of the future Aredes State Park to be created by the government of the State of Minas Gerais.



**Figure 1-1: Location map of Ponto Verde Project, Ponto Verde Mine – SAFM**

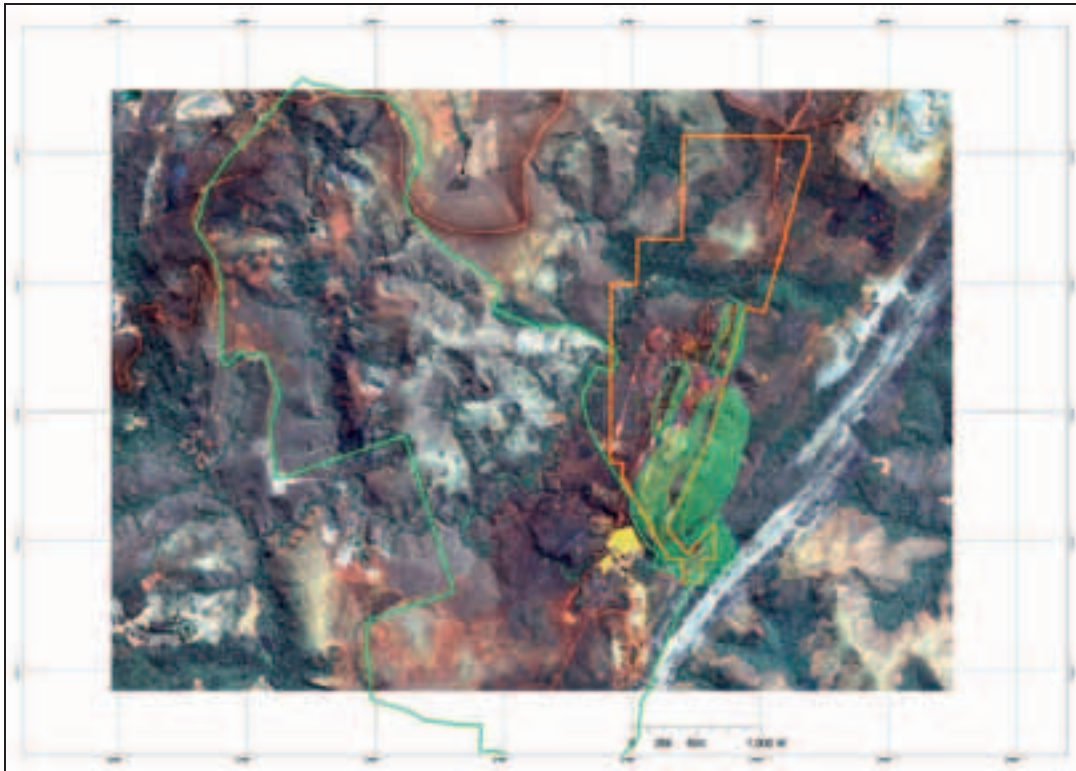


Figure 1-2: Mineral Permit of Ponto Verde Project (orange line) and limits of the Aredes State Park (green line)

## 2 Mining Rights and Environment

### 2.1 Mining Rights

Mining rights in Brazil are governed by the Mining Code Decree 227 dated 27 February 1967, and further rules enacted by Brazil's National Department of Mineral Production (DNPM), which is the governmental agency controlling mining activities throughout the country. Each application for exploration or mining is backed by a claim submitted to DNPM.

Brazilian mining legislation allows that mining rights (Exploration Permits or Mining Concessions) may be, with DNPM's approval, totally or partially assigned or transferred to other parties by their holder. The administrative processes for the assignment or transfer of Exploration Permits and Mining Concessions are similar, even though there are specific conditions for each process. In both cases, the interested party shall file a specific administrative request at the DNPM, according to the provisions set forth in Ordinance 119, dated 14 July 2006, enacted by DNPM.

#### The SAFM Mining Permit

At this time, SAFM holds one mining permit (DNPM # 831.929/ 1984) acquired from Ponto Verde Mineração and approved by the DNPM on 27 November 2008. This permit covers an area of 267.56 ha and was previously a concession of the abovementioned company.

Surface rights for the Ponto Verde properties are held by SAFM (about 150 ha), the remaining surface rights belong to Antonio Luciano Filho, Vale (CVRD) and Comércio Itabirito.

The mining activities have been suspended by judicial order since the beginning of 2003 due to environmental damages caused by the previous operator, and no ore has been produced since that date. Despite this, the permit is in good standing vis-à-vis the DNPM.

A minor change in the mining permit limits is related to an overlap with the Aredes State Park area. This is being handled by the DNPM and does not raise any significant concern.

Financial conditions attached to the mineral rights are summarised in Table 2-1.

**Table 2-1: Financial Conditions for Brazilian Mining Operations**

| Rule                                 | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Applicable Law Provision                                                                    |
|--------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| Payment of CFEM Tax                  | The mine operator shall pay a tax called Financial Compensation for the Exploitation of Mineral Resources (CFEM), levied on the sale of raw or processed mineral, at a rate of: (i) 3% (three per cent) for manganese, potassium, rock salt and aluminium ore; (ii) 2% (two per cent) for iron, fertilisers, coal and other mineral substances; (iii) 1% (one per cent) for gold; and (iv) 0.2% (zero point two per cent) for precious stones, cuttable gemstones, carbonates and precious metals. According to DNPM Act # 439, article 2, any defaulting party shall not be able to apply (i) for the extension of Exploration Permit terms; (ii) for temporary interruption of the exploitation; (iii) for DNPM's approval of company mergers, acquisitions or spin-offs, as well as mining rights assignments and transfers. | Federal Law # 7.990, articles 1 and 6.<br>Decree # 01*, article 15.<br>Federal Law # 8.001. |
| Surface Entitled Person Compensation | The operator shall also pay the person entitled to the surface area a compensation of 50% (fifty per cent) of CFEM's due amount.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Mining Code, article 11, item "b".                                                          |

## 2.2 Environmental Licensing Process

As required by Brazilian National Environmental Policy, established 31 August 1981 by Federal Law 6.938, all potentially or effectively polluting activities are subject to an environmental licensing process. Applicable rules regarding the licensing procedure were established by Resolution 237 of CONAMA (National Council of the Environment) on 19 December 1997. It is by means of this licensing procedure that the issuing agency determines the conditions, limits and measures for the control and use of natural resources and permits the initiation and operation of a project. The license will be issued by either a federal, state or a municipal agency.

Authority to issue a license is based on the aerial extent for the proposed impact and generally follows the rules established by CONAMA's Resolution 237/97, which are listed below:

- Federal entities are responsible for licensing activities which may cause national or regional environment impact (more than two federal States).
- State entities and Federal District Entities are responsible for the activities which may cause State environment impact (two or more cities).
- Municipal entities are responsible for licensing the activities, which may cause local environment impact (within city limits).

The license may be issued in one of the forms described in Table 2-2.

**Table 2-2: Main Environmental Licensing Stages of Brazilian Mining Projects**

| License                    | Description                                                                                                                                                                                     |
|----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Preliminary License (LP*)  | Indicates the enterprise environmental viability. Approves the location and concept of the project. Is subject to a specific environmental impact assessment and a formal public hearing.       |
| Installation License (LI*) | Authorises the initiation of the project. Permits the engineering work and is subject to the presentation of an environmental control plan, similar to the WBG EAP – Environmental Action Plan. |
| Operation License (LO*)    | Allows the beginning of the operation. The company is required to provide evidence that all the environmental programmes and control systems were duly established.                             |

\* Brazilian abbreviations

Municipal legislation must also be considered in certain phases, especially in the preliminary licensing (PL), since the license is subject to the applicable municipality's approval to confirm the compatibility of the project with the Organic Act and the Municipal Law of Use and Occupation of the Terrain.

In addition to the environmental license process and according to the provisions set forth in CONAMA's Resolution 237/97, the requirements of the preliminary licensing phase also include:

- The assent to use water resources.
- The authorisation for forest exploration (APEF) which is required in the cases where there is change in the soil usage or vegetation suppression.
- The authorisation for disturbance of vegetation in Permanent Areas of Preservation (APP) or in Units of Conservation (UC) by the Authorised Environmental entity.

### The SAFM Mining Permit Environmental situation

On 20 May 2003, the Minas Gerais Public Ministry started an Environmental Public Law Suit due to environmental damages caused by the Mining Concession holder. This legal procedure stopped all mining activities at the site.

To allow the mine to re-start operations, SAFM has entered into an agreement with the authorities whereby SAFM commits to assuming environmental liability and undertaking measures necessary to repair the damages.

This agreement is dated 28 September 2009. In addition, SAFM has prepared the following necessary environmental documents. SRK Brazil assisted in preparation of these documents.

This work consisted of:

- Environmental Impact Assessment – EIA: Estudo de Impacto Ambiental.
- Environmental Impact Report – RIMA: Relatório de Impacto Ambiental.
- Environmental Control Plan – PCA: Plano de Controle Ambiental.
- A conceptual closure plan was included in the documents, as well as social-environmental proposals.

The municipality of Itabirito has been a traditional iron ore producing area for many decades. Several private and state-owned companies operating there have implemented social-environmental programmes together with health and safety actions. As is clearly stated in the environmental studies presented, SAFM will participate in such activities.

These technical documents were evaluated by the authorities, and formed the basis for a decision that the LP and LI could be granted. However, it is possible that the environmental agency may impose some further conditions which would need to be fulfilled before the LO is granted.

### 2.3 Summary

The LI and LP licenses were granted in August 2010, and the LO license is expected to be granted in September/October 2010. The current licensing is targeting a production of 1.5 Mtpa of run-of-mine (RoM) ore.

A permanent protection area has been delimited by SAFM; it also includes the legal forest reserve (20% of the property), and the actual limits of the Parque do Aredes are not as yet defined. Part of the west waste stockpile is within the legal forest reserve.

## 3 Geological Setting

### 3.1 Regional Geology

The PV project is situated within the limits of the Quadrilátero Ferrífero (the Iron Quadrangle), in the southern portion of the São Francisco Craton, characterised as a cratonic core which became stabilised in the Lower Proterozoic (Almeida, et al., 1977).

The Quadrilátero Ferrífero geology and lithostratigraphy were described in detail by a combined USGS-DNMP geological team between 1946 and 1963, and summarised by Dorr (1969). Since then, they have been reviewed by several authors, Alkmim & Marshak (1998); Chemale Jr. et al. (1994); Ladeira & Nurseries (1984); Alkmim & Marshak (1989), Renger et al. (1994). The most important lithostratigraphic units of the Quadrilátero Ferrífero shown in Figure 3-1 and Figure 3-2 are represented by granite-gneiss terranes ranging in age from the Archean to the Paleoproterozoic, Archean greenstone belts (Rio das Velhas Supergroup), Paleoproterozoic metasedimentary sequences of the Minas Supergroup and Itacolomi Group and intrusive rocks that are younger than the Minas Supergroup.

The large iron deposits of the Quadrilátero Ferrífero are found in the banded-iron formation (locally known as itabirite) of the Minas Supergroup, which consists of four Paleoproterozoic sequences (Babinski et al., 1995; Noce, 1995, Renger et al., 1994). The lower unit is the Caraça Group, composed of alluvial conglomerates and sandstones, which grade towards the top to marine pelitic sediments. The intermediate unit of the Minas Supergroup is the Itabira Group, consisting mainly of chemical metasedimentary rocks. An extensive layer of banded iron formations (BIFs) of different compositions occurs at the base of the Itabira Group and, along with hematite and dolomitic phyllite, marble and dolomite comprise the Cauê and the Gandarela Formations, respectively. These formations are overlain by the Piracicaba Group, composed of schists, phyllites, carbonaceous phyllites, quartzites and cherts, of the Cercadinho, Fecho do Funil, Taboões and Barreiro Formations. The upper sequence of the Minas Supergroup is the Sabará Group, a sequence of metamorphosed volcanoclastic rocks, turbidites, conglomerates and BIFs (Renger et al., 1994), suggested that these belong to the Transamazonian Orogeny (2.1 - 2.7 Ga) period. Overlying the Minas Supergroup, in erosive and angular nonconformity, is the Itacolomi Group (Barbosa 1968, Dorr 1969, Machado et al., 1993), composed of a succession of meta-sandstones and metaconglomerates (<2.1 Ga). Granite post-Minas, pegmatite, and metamorphosed diabase mafic dikes intruded the rocks of the Rio das Velhas and Minas Supergroups. Some of these granites and pegmatites have radiometric ages varying from 2.06 to 2.08 Ga. Foliated and metamorphosed mafic dykes occur throughout the Quadrilátero Ferrífero, one of them dating from 1.7 Ga (Alkmim & Marshak, 1998). Diabase and gabbro, unaffected by metamorphism, are also found locally (Pomerene, 1964, and Wallace, 1965).

A lateritic cap (canga) occurs in the iron deposits and host rocks. The canga is composed of several detrital fragments, usually iron ore or itabirite, cemented by goethite (Dorr, 1964).

The rocks from the area show a complex deformation history, with complex structures indicating at least three distinct tectonic phases in which anticlines and synclines, topographically inverted and intensely faulted, stand out in addition to aligned ridges and cliffs.

### 3.2 Geomorphology

The quartzite and the ferruginous concretions (canga) are the most erosion-resistant rocks, and form ridges and hills ranging between 1200 m and 2000 m in elevation. These units form the boundary of the region known as the Quadrilátero Ferrífero. Rocks exterior to the Quadrilátero Ferrífero are polyconvex hills of crystalline basement, at an altitude of between 800 and 900 m. The interior of the Quadrilátero Ferrífero comprises the Rio das Velhas Supergroup, at an altitude of between 1100 to 1200 m, drained to the north by the Rio das Velhas (São Francisco River basin). The western boundary forms the divide between the Rio das Velhas and the Rio Piracicaba (Doce River basin).

In areas where slopes are steep and altitudes are high, soils are relatively shallow and covered with field vegetation. At intermediate heights, some areas are still covered by semi-deciduous seasonal forest (IBGE, 1992) and riparian or gallery forests follow part of the watercourses in the region. Between these areas and the field vegetation, the field-cerrado (Brazilian savannas) is dominant.

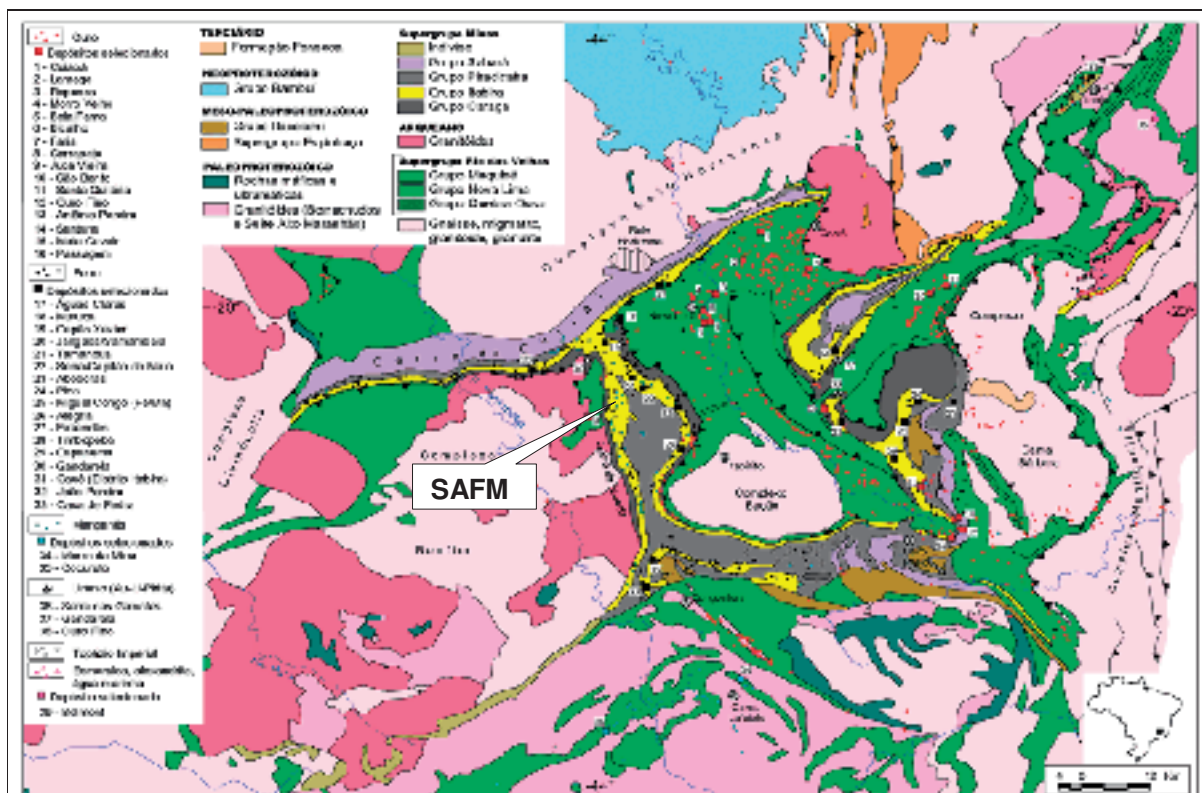


Figure 3-1: Regional geology map of the Iron Quadrangle (Alkmim & Marshak, 1998) with the localisation of the various mines in operation or not (Fe, Mn, Au and U)

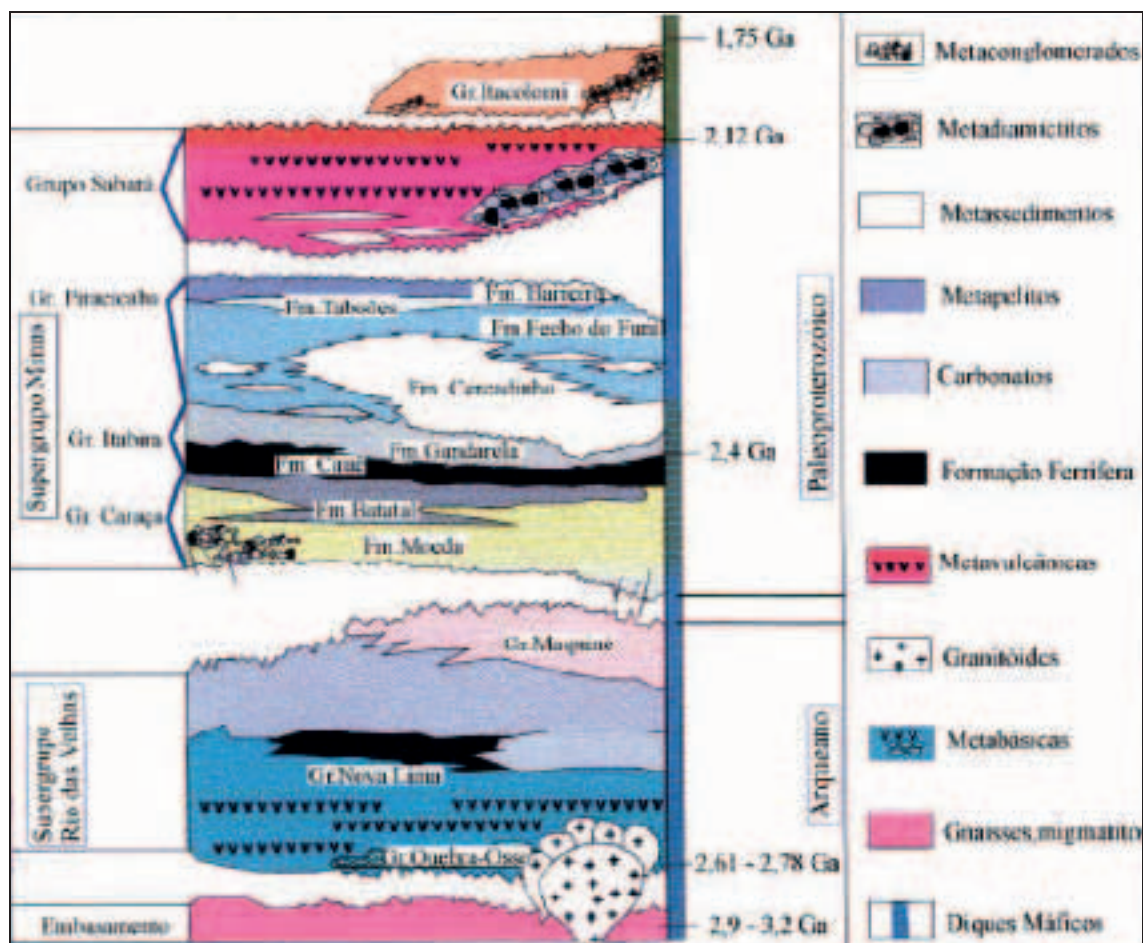


Figure 3-2: Stratigraphic sequence of the Iron Quadrangle (Alkmim & Marshak, 1998)

### 3.3 Deposit Geology

The project area is located within the eastern flank of the north-south striking Moeda Syncline, and is underlain by rocks of the Itabira and Piracicaba Groups, of the Minas Supergroup. The iron and manganese deposits in the area are related to the Cauê and Gandarela Formations, respectively (Figure 3-3). The manganese deposits are generally in areas of low relief, whereas the iron ore deposits form steep hills and ridges. Canga deposits in the southern central region of the Moeda Syncline were mined in the past.

The main lithologies present in the Ponto Verde mine are soft itabirite (medium to poor) of the Cauê Formation, clastic metasedimentary rocks (quartzite and phyllite) of the Moeda and Batatal Formations and dolomites and weathered iron-manganese formations of the Gandarela Formation, in addition to Tertiary argillaceous sedimentary deposits, cangas and soil coverage.

The Ponto Verde orebody occurs continuously over more than 2 km, from the southern boundary to the central part of the mineral permit of SAFM. In this region, the Cauê formation is oriented towards N30° to 45°E with thicknesses varying around 100 m. Thickness variation is controlled by second-order internal folding, with fold axes oriented NE-SW. These folds produce strong variations in the dip of the layers, ranging from 20° to 85° to both the SE and NW.

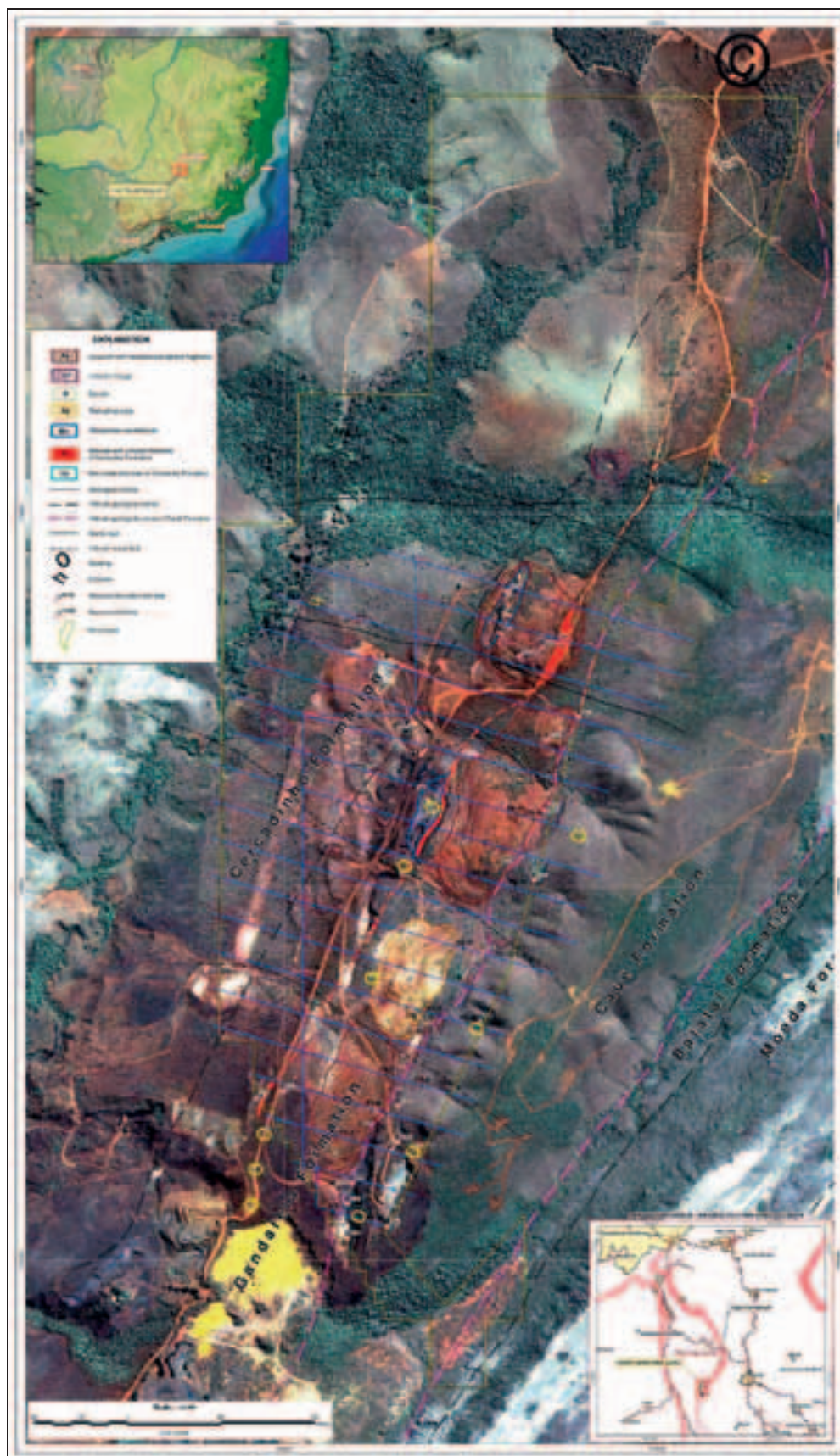


Figure 3-3: Satellite image with the geologic contacts and the license area (in yellow)

## 4 Exploration

### 4.1 Topography

SAFM conducted a topographic survey of all the mined areas, dikes, waste dumps, and other structures within the boundaries of its mineral permit and of some other structures outside of its mining permit.

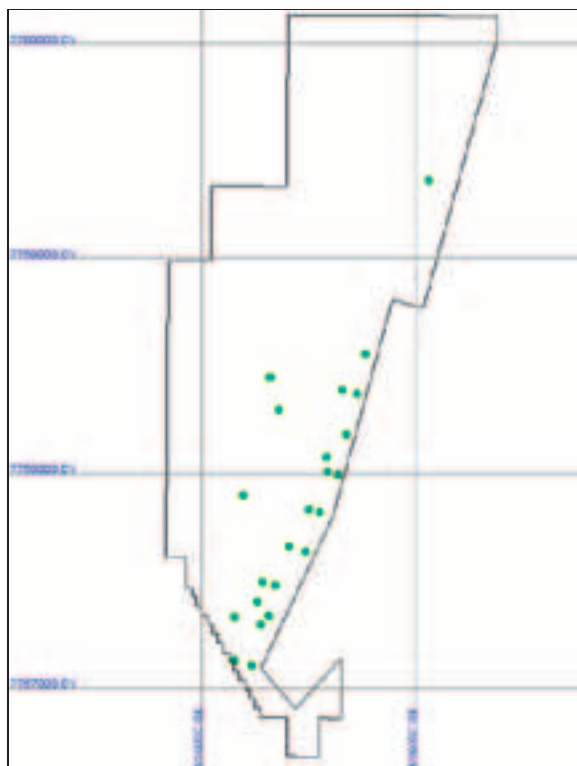
The estimates of Exploration Target were based on the topography obtained from Vale (formerly CVRD), adjacent to the Ponto Verde Mine. Vale conducted an aerial survey in the region including its mines further north and nearby ventures.

In general, the survey conducted by SAFM is sufficiently detailed and based on good topographic landmarks which were geo-referenced by transposition of coordinates from base stations approved by the IBGE (Brazilian Institute of Geography and Statistics).

SRK conducted a visit to verify a small number of drillholes, comparing the coordinates printed on the collar landmarks with those obtained from a handheld GPS. The result was acceptable.

### 4.2 Drilling

The drilling conducted by SAFM did not follow a regular grid, with sections spaced at intervals of approximately 200 m in some places, and 100 m and 50 m in other places. The holes are also irregularly spaced along sections, shown in Figure 4-1.



**Figure 4-1: Drillhole locations**

A total of 28 HQ diamond cores were drilled, 5 were inclined and 23 vertical, totaling 3005.95 m. No down hole surveys were conducted in any of the holes. The database provided shows that four of the holes have no assay values associated with them. The best intersections in the remaining 24 holes are shown in Table 4-1.

| Hole_id  | Metres | From depth (m) | Fe (%) | Al <sub>2</sub> O <sub>3</sub> (%) | SiO <sub>2</sub> (%) |
|----------|--------|----------------|--------|------------------------------------|----------------------|
| PVFS_01  | 50.25  | 0.00           | 50.79  | 2.38                               | 18.89                |
|          | 33     | 72.00          | 37.69  | 0.91                               | 43.26                |
| PVFS_02  | 120    | 0.00           | 43.91  | 1.22                               | 32.76                |
| PVFS_03  | 3.05   | 122.40         | 44.4   | 0.81                               | 30                   |
| PVFS_04  | 76     | 0.00           | 45.16  | 0.69                               | 29.67                |
| PVFS_04A | 28.4   | 91.60          | 37.85  | 2.15                               | 30.19                |
| PVFS_06  | 71     | 0.00           | 33.12  | 1.45                               | 18.11                |
| PVFS_07  | 32.85  | 0.00           | 47.68  | 2.91                               | 19.59                |
| PVFS_08  | 5      | 81.70          | 38.3   | 0.76                               | 41.6                 |
|          | 22.35  | 0.00           | 39.88  | 1.72                               | 35.61                |
| PVFS_09  | 9.8    | 0.00           | 44.80  | 2.91                               | 25.28                |
| PVFS_10  | 60     | 0.00           | 39.96  | 0.54                               | 40.98                |
|          | 54     | 66.00          | 37.47  | 0.39                               | 44.31                |
| PVFS_11  | 2.37   | 0.00           | 42.18  | 3.1                                | 27.35                |
| PVFS_12  | 54     | 0.00           | 41.48  | 1.08                               | 37.90                |
|          | 36     | 60.00          | 39.54  | 0.92                               | 42.41                |
| PVFS_13  | 1.75   | 0.00           | 59.81  | 2.95                               | 5.15                 |
|          | 39.9   | 1.75           | 43.45  | 4.59                               | 26.67                |
|          | 16.85  | 43.15          | 38.42  | 2.16                               | 35.10                |
| PVFS_14  | 48.4   | 0.00           | 43.76  | 0.94                               | 31.69                |
|          | 28.25  | 49.90          | 42.48  | 1.39                               | 31.21                |
|          | 34.85  | 79.65          | 23.81  | 1.51                               | 27.51                |
| PVFS_16  | 1.6    | 2.90           | 36.91  | 3.62                               | 40.31                |
| PVFS_17  | 32.35  | 0.00           | 54.56  | 6.54                               | 10.37                |
|          | 42.8   | 35.35          | 51.68  | 2.84                               | 21.01                |
| PVFS_18  | 6.95   | 34.25          | 39.95  | 6.06                               | 30.78                |
| PVFS_18A | 7      | 87.85          | 35.41  | 0.32                               | 47.82                |
| PVFS_19  | 3.6    | 15.50          | 48.37  | 2.76                               | 23.34                |
|          | 7.55   | 25.30          | 42.72  | 1.88                               | 29.74                |
|          | 6.8    | 50.80          | 35.71  | 0.79                               | 45.96                |
|          | 7.65   | 76.00          | 40.82  | 0.38                               | 33.97                |
| PVM_01   | 30.2   | 16.90          | 47.09  | 7.94                               | 11.70                |
| PVM_03   | 7      | 0.00           | 57.6   | 4.25                               | 8.05                 |
| PVM_04   | 47.05  | 0.00           | 51.12  | 3.01                               | 14.84                |
| PVM_07   | 86     | 0.00           | 43.76  | 1.79                               | 19.39                |

Table 4-1: Best drilling intersections with &gt;35% Fe

The following problems were detected in the drilling:

- As the orebody is steeply dipping and most holes are also vertical, several holes stopped within the Cauê itabirite. For a better understanding of the thickness and variability of the ore body, the drilling of inclined boreholes is essential.

- The small diameter of the drills used also affected the drilling efficiency, stopping the drilling in the itabirite layer and interrupting some holes due to operational problems (locking of the tools inside the holes in more compact ore).
- Lack of holes in the eastern part of the area, making it impossible to define more realistically the eastern contact of the ore body with basement, and to estimate the quality of the types of ore near the boundary. This contact was inferred from surface mapping.

### 4.3 Logging, Sampling and Assaying

During the visit to the SAFM core shed in the Ponto Verde mine, checks were conducted on the geological logging and sampling of the holes PVFS-02, 07, 14 and 19, by examining the remaining core.

Petrographically, lithotypes are classified by hardness criteria (compact, semi-compact and friable), mineralogy (carbonate, manganiferous, hydrated and oxidized) and form of occurrence (detrital or weathered coverage). In the holes checked, the geological logging was satisfactory. However, there are no documents which define the standard logging methodology, so quality assurance of the logging of the other holes is doubtful.

The sampling presents similar problems to the geological logging. There are no documents that define procedures for core sampling, resulting in errors, such as those found in the holes that were checked.

In the four holes reviewed, the following sampling problems were detected:

- Intervals of material considered waste with a thickness of 1.5 m were not included in the sample (drillhole PVFS-14).
- Intervals of poor quality itabirites and / or manganiferous calcareous itabirite were not sampled (PVFS-07, 14:19).

According to information provided on site, the lack of some sampling intervals was also due to financial constraints in the final stage of the drilling campaign.

Sample preparation and chemical analysis were performed in the SGS Geosol certified laboratory in Belo Horizonte. A routine sample preparation was carried out, and the analysed elements and their detection limits are shown in Table 4-2.

**Table 4-2: Chemical elements analysed and their respective detection limits**

| Analysis           | FeO (%) | SiO <sub>2</sub> (%) | Al <sub>2</sub> O <sub>3</sub> (%) | Fe <sub>2</sub> O <sub>3</sub> (%) | CaO (%) | TiO <sub>2</sub> (%) | MgO (%) | P <sub>2</sub> O <sub>5</sub> (%) | K <sub>2</sub> O (%) | MnO (%) | Na <sub>2</sub> O (%) | Fe (%) | P (%) | Mn (%) | LOI (%) |
|--------------------|---------|----------------------|------------------------------------|------------------------------------|---------|----------------------|---------|-----------------------------------|----------------------|---------|-----------------------|--------|-------|--------|---------|
| Limit of Detection | 0.14    | 0.10                 | 0.10                               | 0.01                               | 0.01    | 0.01                 | 0.10    | 0.01                              | 0.01                 | 0.01    | 0.10                  | 0.007  | 0.005 | 0.008  | -45.00  |

### 4.4 Density

Density measurements on semi-compact and compact samples of the identified lithologies were analysed using the Volume Displacement Methodology. Analyses of wet and dry densities were conducted, generating a total of 31 samples, according to the database provided by SAFM.

The procedure of collecting, preparing and conducting the tests is well documented, according to the operational procedure “Densidade por Volume Deslocado em Testemunhos de Sondagem” reviewed by SRK.

Additionally, tests of moisture and density of the material in situ were performed in the mine according to the box sand method. These tests were performed by the company Geolabor, which specialises in performing geotechnical engineering tests. The report containing these results was reviewed by SRK. No problems were identified.

#### 4.5 Data Quantity and Quality

SAFM used only duplicate samples and not standards and blanks in its QA/QC procedure. Moreover, there are no documents that define the procedure for insertion of duplicate samples, such as the frequency of insertion of the samples and how to identify them.

Out of a total of 315 samples from the database, 11 duplicates were analysed. The duplicates were all assayed for the raw grades, 5 samples had the lump ore fraction (-32.00 mm + 6.35 mm) analysed, 5 samples had the coarse sinter feed fraction (-6.35 mm + 1.00 mm) analysed, 7 samples had the sinter feed fines fraction (-1.00 mm + 0.15 mm) analysed, while 9 samples had the pellet feed fraction (-0.15 mm) analysed. The number of duplicates is clearly too low to give a proper indication of the quality of the sampling programme.

Although sample duplicates show a good correlation with the original paired samples, the lack of standard and blank samples prevents a broader analysis of the QA/QC programme used by SAFM.

The laboratory of SGS Geosol routinely handles standards and blanks, but the SAFM programme did not include any. The rejects of the samples were returned to SAFM, and are stored in the core shed of the Ponto Verde Mine. The storage conditions in the core shed should be improved. Bags are currently placed on the floor without proper organisation, which may make any resampling for QA/QC purposes difficult to verify.

#### Summary

Due to a number of factors identified in this data review, SRK is of the opinion that the exploration data do not support reporting of a JORC Resource. The main problems can be summarized as follows:

- Inadequate QA/QC does not allow assessment of any bias that may be present in the analytical database
- Poor drilling techniques or poor core recovery can create serious biases that may result in poor quality grade and tonnage estimation
- Poor quality geological logging can lead to misinterpretation of the geology, and therefore to geological models that may lead to serious estimation errors.
- It is difficult to assess the quality of sampling and assaying results.

Although the QA/QC practices employed by SAFM in the Serra do Itabirito Ponto Verde Project are broadly in line with what is common practice for small iron ore projects in the Quadrilátero Ferrífero of Minas Gerais, SRK sees the current practices as below internationally accepted standards. These practices should be significantly improved in the future so that a JORC compliant estimate can be completed.

#### 4.6 Exploration Data Base

The drilling database (DB) was made available to SRK in the "Access" format, structured by Coffey Mining from Excel spreadsheets provided by SAFM.

The data of PVFS-02, 07, 14 and 19 were checked by comparing the logs with the information contained in the database. No major problems were found.

Concerning the analytical results, the stoichiometric balance of the raw and fraction samples are within the limits of acceptance from 98% to 102%. The mass closure of the fractions retained in the sieves showed some inconsistencies, as 145 samples presented a sieve analysis balance between 90% and 98% only. The remaining samples showed an acceptable sieve analysis balance, between 98% and 100%.

The rock codes from the fields Itabira and Min\_Est in the Assay table are not standardised, showing more than one code for the same lithology type (e.g. MBT, MBT FeMn, col MBT, MBT rol etc.) and empty fields.

As for the sampling and logging, there are no documents describing the operational procedures at the various stages of the geological exploration process, and this likewise applies to the database. There is no description of the various tables and their respective fields, making it harder to maintain consistency in the database.

#### 4.7 Geological Model

The geological model used to define the Exploration Target of the Ponto Verde Mine was prepared by Coffey Mining based on 19 vertical geological sections supplied by SAFM. The lithologies modelled were those corresponding to ore types recorded in the SAFM data. The proposed model was validated using the assay data from the drillholes. 3D solids for the ore were created by integrating the vertical sections. Four mineralised domains combining lithology and hardness were defined:

1. Poor semi compact Cauê Itabirite.
2. Moderately Friable Cauê Itabirite.
3. Gandarela Itabirite and Colluvium.
4. The waste lithologies were not specifically modelled, and they were included in the block model by default as everything outside the modelled ore and assigned a density of 2.17 g/cm<sup>3</sup>.

Note that the 19 sections, and consequently the solids, do not go beyond the eastern boundary of the mining permit, as can be seen in Figure 4-2.

This is a fairly simple model, and in view of the relatively low number of drillholes, is reasonable. Future studies could complement the lithological model by a 3D modelling of the grades within the lithologies, based on a relatively low Fe cut-off, in order to constrain the mineralisation model.

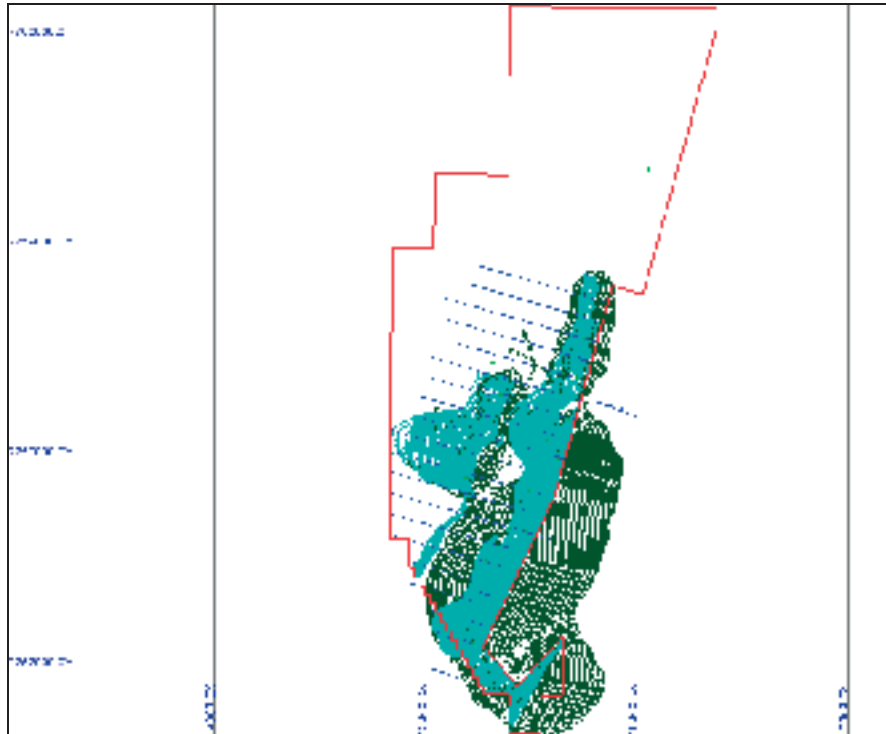


Figure 4-2: Position of ore solids (cyan) and geological cross-sections (blue lines) with respect to the limit of the mining permit of the mine

## 4.8 Estimation of Exploration Target

### 4.8.1 Statistical Analysis and Variography

The original 315 samples (from 24 drillholes that had analytical data) were composited to 6 m and flagged by domain. The statistical analysis by Coffey is quite thorough, only limited by the low number of composites: Cauê Total Itabirite (regrouping the Poor semi-compact and the Moderately Friable Itabirites) contains only 176 composites.

Variability, characterised by the coefficient of variation CV, is generally low, except for Mn (where CV is close to 2).

Variography was only performed for Cauê Total Itabirite – again, because of the low number of data.

Spot checks performed by SRK show that the results of the variography are acceptable. It is probably a limitation of the software used, that only one structure is fitted to the experimental variograms, but the impact on the estimation is likely to be quite low. As expected, the major direction of continuity corresponds to the deposit strike N24°. The other direction of continuity is subvertical.

The nugget effects of all the variables are low, with the possible exception of Mn. Maximum ranges vary from 250 m to 400 m, which is usual for this type of iron deposit. The proportions of size fractions are also studied and the corresponding variograms are correct.

The models defined for Cauê Total Itabirite are applied separately to the two Poor semi-compact and Moderately Friable Cauê Itabirites domains, presumably corrected by the domain variance.

Due to the lack of data, no variography was performed for the two other domains.

#### 4.8.2 Estimation of Exploration Target

A block model with parent block cells of 25 (EW) x 50 (NS) x 10 m (Vert) was used, rotated by 25° to align the blocks with the strike of the deposit. Sub-blocking down to 12.5 x 25 x 10 m is allowed to follow the limits of the domains better. This is standard practice and is not problematic. The blocks are flagged by domain according to the location of the block centroid, which means that any block belongs to only one domain. This is acceptable, as the geological model is approximate only, in view of the low number of data.

The estimation of the raw grades and of the size fractions is done by ordinary kriging in four passes corresponding to increasing search neighbourhoods. This is fairly standard practice, but the neighbourhood definition does not seem to have been established on the basis of practical tests. In that sense, the neighbourhoods chosen are probably not optimum, (the smaller one in particular looks too small in view of the data density).

The estimation of the grades associated with the size fractions was done similarly, using the variograms of the percentage of the corresponding size fraction.

This method is not very good for two reasons:

1. The direct estimation of grades associated to varying percentages is incorrect, because such grades are not “additive” variables; it would be better to estimate the product grade\*percentage which is close to a metal content and therefore additive.
2. There is no reason for the percentage variogram to represent well a grade variogram: the latter is likely to be more irregular.

Despite these limitations, the results seem reasonable, as shown by the correlations between block grades and data (Coffey Mining, 2009a).

An inverse distance squared estimation method is used for the Gandarela Itabirite and the Colluvium domains. This is acceptable, as these domains are very small and poorly informed. In conclusion, the Exploration Target estimation is reasonable, and shows no fatal flaw.

#### 4.9 JORC Exploration Target

SRK's opinion regarding the JORC status of the Coffey estimate precludes the reporting of a resource estimate. However, SRK notes that the Ponto Verde Mine at the PV project was an operating mine and closure was a result of environmental management problems and not related to the existence of iron ore at the site. Consequently, the Coffey estimate can be used to report an Exploration Target for the Company, provided a suitable range can be justified. SRK has reviewed the Coffey model relative to the drilling data, and compared the model grades determined by Coffey against the average sample grades in the mineralised wireframe volume. SRK is of the opinion that the wireframe model is reasonable with respect to the drilling data, and so can be used to determine an Exploration Target tonnage. The average sample grade within the wireframe was 39.1% Fe, compared with a block model grade of 39.2% Fe from the Coffey model, confirming that the Coffey model is a reasonable geological model on which to base the Exploration Target. SRK has applied a range on the Exploration Target tonnage and grade of +5% to -15% to reflect the risk associated with the poor QA/QC and lack of sufficient samples in some domains.

SRK has determined that a reasonable Exploration Target for the PV project is between 127 Mt and 157 Mt at a grade of between 33.3% Fe and 41.1% Fe, for total contained iron of between 42.2 Mt and 67.5 Mt.

The potential quantity and grade noted here is conceptual in nature. There has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource.

## 5 Site Infrastructure

Coffey Mining prepared a report in which they indicated the potential to re-commence production at the PV based on low production rates for the first 5 years. No other scoping studies have been undertaken on this option, and a major component of the funds raised will go into developing the option to commence production. Current operation permit applications are for 1.5 Mtpa. This production is proposed from known near-surface sources and continuation of past mining areas.

Current installed equipment includes:

- 01 Belt Feeder.
- 01 primary jaw crusher.
- 03 secondary jaw crushers (two operating in parallel + one on standby).
- 02 double deck screens.
- Belt conveyors.

SAFM has changed the entire electrical cabling, some electrical motors, the belt conveyors' accessories and created new electrical and control rooms. This equipment is in very good condition but is not sufficient for a wet operation. The remaining plant infrastructure is also in good condition. An upgrade to wet operation (DWRE) would allow increased yield and therefore higher ore production.

### 5.1 Water Supply

SAFM is considering the development of groundwater bores for its operations, as the current SAFM concessions allow use of up to 9 m<sup>3</sup>/h of surface water from a small stream, which is insufficient to operate the crushing plant with DWRE technology.

The Company is also examining an aggressive plan to re-circulate the water, together with the use of paste tailings to reduce the demand for water. As yet, no hydrological study has been completed.

### 5.2 Energy Supply

Initially, operating with only a crushing / screening plant, or even when the DWRE is added, SAFM is considering the use of generators.

For the concentration plant, with an installed power demand of around 10-15 MW depending on the scenario to be implemented, the energy supply should be obtained from an external utility company.

No studies have been done as yet and no agreements for energy supply have been entered into.

### 5.3 Logistics

The PV project is well served by unpaved roads in good condition and is located very close to highways. There would be no problem transporting the products to the railway situated some 30 km from the mine. Some road upgrading may be required.

SAFM plans to transport the product by road to a railway terminal, where it would be loaded onto MRS trains and exported via a private port in the Bay of Sepetiba, Rio de Janeiro.

No option studies have been done and no agreements or discussions with any other parties potentially involved have taken place.

#### 5.4 Waste and Tailings Disposal

There is currently no system for tailings disposal. There are three small dams, denominated dams 01, 02 and longitudinal dam; their respective heights are 3 m, 3 m and 5.2 m. Their storage capacities were evaluated at 8,000, 3,000 and 100,000 m<sup>3</sup>, according to a report prepared by Sênior Geologia & Mineração. The function of the dams is to control superficial drainage; they were not designed for the disposal of tailings.

Regarding waste disposal, there are small stockpiles located within the project area, which are well formed and, apparently, stable. They are not equipped with systems for the retention of the sediments generated by slope erosion, as recommended by the National Standard NBR 13029.

Any future operation will need to review the disposal of waste in relation to environmental impacts to ensure continuing operation is permitted.

#### 5.5 Summary

SRK estimates a three-month start-up period is required to make the crushing / screening plant modifications, undertake the water and energy supply studies, determine the best logistics and establish effective waste and tailings disposal strategies, and to resolve mining issues.

## 6 Proposed Exploration and Development Programme

The Company plans to utilise funds raised in the current share issue, supported by this Independent Geologist's Report, to further the development of the PV Project. As a result of this review, SRK is of the opinion that a further drilling programme is required at the project, to upgrade the Exploration Potential currently being reported by the Company, and the Exploration Potential determined by SRK.

In addition, a deep drilling programme to increase the potential depth extent of the deposits, and potentially to increase the possible production rate of the deposit, is justified. While this is possible with existing infrastructure, the mine has been on a non-production basis since 2003, and any initial production is likely to follow the old pit.

To achieve this, some expenditure at the site to both improve the infrastructure and to allow a quick return to production as soon as approvals are in place, will be required. SRK is not aware of any mine plans associated with the proposal to re-start operations.

The company has provided the following indicative exploration and development budget over the next 2 years:

- A drilling programme to enable upgrade of the Exploration Target to JORC Measured and Indicated Resource status - \$2.5 M.
- On-going studies to support re-commencing mining operations: - \$2.5 M.
- Upgrade site infrastructure including new weighbridge and road improvements: - \$2.0 M.
- Working capital and Feasibility studies (including an exploration drilling programme to increase the target mineralisation): - \$7.05 M.

SRK estimates that to achieve a measured resource status in the Minas Gerais Itabirite formations may require drilling on approximately 50 m line spacing with a similar intersection spacing in cross section. The itabirite is about 100 m thick, and is about 2000 m in strike length. Assuming it has a vertical dip, and the base of economic resource is about 250 m (realistic open pit maximum depth), then each section will require approximately 4-5 holes spaced 50 m along the section line with an inclination of -60°. This represents approximately 1,000 m per section or 40,000 m. Approximate total drilling costs are about \$150/m including assaying and overheads. At a line spacing of 75 m for some indicated resources the number of section would reduce to about 25 sections.

This approach is in line with current drilling practice in the region. These estimates can be reduced by the cost of the current drilling, approximately \$0.5 M using similar assumptions, as its results will be included in the follow-up analysis.

Therefore SRK considers the two-stage drilling proposal for the application of the funds to be reasonable.

No feasibility studies have as yet been completed for the proposed re-commencement of operations. While there are some plans being considered, a formal document outlining the required development program is not available. The Company is planning to utilise part of the funding to undertake the necessary studies and planning to be able to restart the mining operation.

SRK estimates that the \$2.5 M allocated to this work will be sufficient to undertake the necessary studies, including groundwater studies, waste dump and tailings disposal design, and purchase of the necessary new equipment, once identified by the preliminary mining feasibility study.

Likewise, SRK consider that the \$7.05 M allocation to working capital and to the studies for the expansion of the mine (including drilling) is reasonable.

## 7 Conclusions

SRK concludes that the PV project has technical merit from a geological perspective, in that an Exploration Target can currently be defined around a previously mined, exposed iron ore orebody. The current Exploration Target of between 127 Mt and 157 Mt of ore at a grade of between 33.3% Fe and 41.1% Fe, for total contained iron of between 42.2 and 67.5 Mt is present at the PV project.

The Company plans to use the A\$15.0 M of capital raised (which include A\$1.0 M of capital raising costs) to further advance the project, and these funds will be partially allocated to a detailed infill drilling programme comprising two stages – initially to target the early production area, followed by expansion of the Exploration Target base. SRK believes the funds so applied have a reasonable chance of achieving the Company's objective, given the current status of knowledge of the project geology.

The Company also plans to investigate the potential for early re-commencement of mining, and has earmarked some of the funds (A\$2.5 M) for work required to bring the project to that status in the shortest possible time. This work programme will involve drilling (as discussed above) to JORC status, and undertaking essential feasibility studies and activities to ensure licence conditions are met and critical plant and infrastructure is available.

## 8 Recommendations

Specific recommendations arising out of SRK's project review as independent geologist are:

- Future studies, especially drilling, logging and core sampling, and metallurgical testing, should follow international standards of quality control, so that the resources and reserves can be properly classified based on international codes and standards, such as the JORC Code or CIM (NI 43-101).
- The drilling should be standardised onto sections as much as possible and all holes drilled with an inclination of  $-60^{\circ}$  to test properly for ore variability across the whole orebody. Similarly, all holes should drill through the orebody into the footwall, except perhaps the longest hole per section if the depth exceeds the economic limit.
- It is necessary that all steps involved in the geological exploration are adequately documented through reports and operational procedures to ensure an acceptable standard of quality in all activities, from planning and execution of the drilling to the geological logging, sampling for chemical analysis and tests of density, insertion of QA/QC samples (duplicates, blank and standards) and geological modelling. Likewise, SRK recommends that the sample rejects obtained after preparation be properly stored in the core shed, with a clear identification system, in case of possible re-sampling and / or checks being required in the future.
- Taking into consideration the importance of topography for the estimation of resources and reserves, SRK recommends that the detailed survey data obtained by SAFM within its permit be combined with the topographical survey data obtained by Vale, in the areas surrounding the Ponto Verde Mine.
- The Exploration Target estimation is reasonable, but could be improved by a more scientific approach to the neighbourhood definition. The estimation of the grades of the size fractions is sub-optimal.

## **9 References**

Coffey Mining, 2009a. Estimativa de Recursos e Reservas - Fazenda Retiro Novo SAFM – Mineração Ltda - Projeto Ferro Fazenda Retiro Novo, unpublished report.

Coffey Mining, 2009b. Executive Summary – Resources and Reserves Estimation, SAFM – Mineração Ltda, The Fazenda Retiro Novo Iron Ore Project, No 90309, unpublished report.



## Independent Technical Report

Prepared by Coffey Mining on behalf of:

**Riviera Resources Limited**

**Ponto Verde Project**

240810

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## Document Review and Sign Off



Primary Author  
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22 September 2010

Riviera Resources Limited  
Level 1 322 Hay Street  
Subiaco, WA 6008  
Australia

**Attention: Mr Philip Re**

Dear Mr Philip Re

**RE: Independent Technical Report**

Coffey Consultoria e Serviços Ltda ("Coffey Mining") has been commissioned by Riviera Resources Limited ("RVE") to provide an Independent Technical Report on the Ponto Verde Iron Project, Minas Gerais State, Brazil. The Independent Technical Report has been prepared on information available up to and including 22 September, 2010.

The Ponto Verde Project ("the Project") tenement comprises one granted Mining Concession and one Mining Permit. The tenement covers a total area of 150ha. Coffey Mining has not sought to independently verify that any of the necessary legal arrangements regarding the Project are in place.

Coffey Mining has based its review of the Project on information provided by RVE, along with technical reports prepared by joint venture partners, government agencies, independent consultants, and other relevant published and unpublished data as available. Site visits were undertaken to the project by Dr N Lock, Mr B Viana and Mr R Cordeiro of Coffey Mining on the 10<sup>th</sup> September, 2010.

Coffey Mining has endeavoured, by making all reasonable enquiries, to confirm the authenticity and completeness of the technical data upon which the Independent Technical Report is based. A final draft of this report was also provided to RVE, along with a written request to identify any material errors or omissions. This document has been prepared for inclusion in a prospectus to be prepared by RVE and lodged with ASIC in or around October 2010.

Coffey Mining considers that the Project is based on the widespread occurrence of itabirite iron mineralisation documented in largely credible information from historical exploration and production. Conceptual study of mining and processing options suggests the mineralisation is likely to be amenable to beneficiation and further processing to produce Small Lump, Coarse Sinter Feed and Pellet Feed Concentrates. Notwithstanding the presence of widespread iron oxide mineralisation, formal classified Mineral Resources compatible with the JORC Code have yet to be established and will require completion of additional drilling, sampling and resource estimation with improved QAQC procedures. A

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final process flow sheet and the economics of processing have yet to be established and will require additional detailed investigation. Additional studies are warranted to establish the likely economic parameters associated with development of the Project.

Coffey Mining is an exploration, mining and resource consulting firm, which has been providing services and advice to the international mineral industry and financial institutions for over 50 years. The primary author of this report is Dr Norman Lock who is a professional geologist with over 35 years experience in the exploration, evaluation and development of mineral properties internationally. Dr Lock is the Vice President Coffey Mining Canada and Senior Principal Geologist. He is a Chartered geologist and Fellow of the geological Society of London, a Member of the Geological Society of South Africa and a Professional Natural Scientist registered with the South African Council for Natural Scientific Professions. Additional Coffey Mining consultants, Bernardo Viana, Joao Hilario, Ricardo Cordeiro and Porfirio Rodriguez were retained as “Specialists” to respectively assist in the review of the geology and exploration target sizes, mining, metallurgy and processing aspects and site inspection associated with the Project. Each of the authors has the appropriate relevant qualifications, experience, competence and independence to be considered an “Expert” under the definitions provided in the Valmin Code and as “Competent Persons” under the definition provided in the JORC Code.

Neither Coffey Mining, nor the authors of this report have, or have had previously, any material interest in RVE or the mineral properties or companies in which RVE has, or is earning, an interest. Our relationship with RVE is solely one of professional association between client and independent consultant. This report is prepared in return for professional fees based upon agreed commercial rates and the payment of these fees is in no way contingent on the results of this report.

For and on behalf of Coffey Consultoria e Serviços Ltda

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Norman Lock  
Senior Principal Geologist

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## EXECUTIVE SUMMARY

### Introduction

Riviera Resources Limited (RVE) has commissioned Coffey Consultoria e Serviços Ltda (Coffey Mining) to prepare an Independent Technical Report on the Ponto Verde Project in Minas Gerais State, Brazil. The Ponto Verde Project is currently held by SAFM Mineração Ltda (SAFM Brazil), the Brazilian company owned 100% by South American Ferro Metals Limited (SAFM Holdings) being acquired by RVE. The Report has been requested to accompany a prospectus to be prepared by RVE and lodged with ASIC in or around October 2010.

All monetary figures included in this report are expressed in United States dollars (US\$) or Australian dollars (A\$), unless otherwise stated.

The legal status of the asset in which RVE has an interest, the various agreements covering those interests, and the exploration, mining and minerals processing legislation applicable in Brazil have not been independently verified by Coffey Mining. The present status of the tenement, agreements and legislation described in this report is based on information provided by RVE and the report has been prepared on the assumption that exploration and potential development of the iron ore project will prove to be lawfully allowable.

### Project Background

Brazil is a world leader in minerals production and is the world's leading producer of iron ore. In 2008, Brazil was the eighth ranked producer of raw steel in the world and the leading producer in Latin America, with production of 33.7Mt.

SAFM Brazil holds a Mining Concession (DNPM-831.929/84) under which a Mining Permit has been granted. The Mining Permit is owned by SAFM Brazil and covers an area of 150ha.

The Project is located in the prolific iron ore mining area known as the Quadrilátero Ferrífero (Iron Quadrilateral), about 40km to the south of the city of Belo Horizonte in the State of Minas Gerais, Brazil. The existing mine infrastructure includes a crushing, washing and screening plant with capacity up to about 2Mtpa. Access within the mine and to the mine is good with power and water immediately available. Increased production will require a regional power utility interconnection.

### Geology

The Iron Quadrilateral is an area of Paleoproterozoic metasedimentary and metavolcanic rocks overlying the Archean São Francisco Craton. The rock sequence includes Banded Iron Formations (BIF) that are the host to economic iron deposits. In the Project area iron mineralisation is hosted by the Cauê and Gandarela Formations of the Itabira Group. A lateritic cap (Canga) of cemented detrital material is also of potential economic interest.

### Exploration History

There are no records of exploration or production prior to the acquisition of the property by SAFM Holdings in 2008. However it is clear from the evidence of surface excavations and pits that a significant volume of rock has been moved and it is reasonable to assume this rock contained iron mineralisation. The quantity and quality of the previously mined iron ore are unknown.

### Exploration Target Size

The Project is situated on the eastern flank of the Moeda syncline with lithologies of economic interest hosted in the Gandarela and Cauê Formations of the Itabira Group. The Ponto Verde mineralisation is continuous over more than 2km from the southern boundary of the Project. The Cauê Formation strikes roughly northeast and is about 100m thick. The Gandarela Formation overlies the Cauê Formation to the northwest.

Coffey Mining reported the results of exploration drilling and sampling, together with mining and processing studies, in a conceptual study in 2009. SRK has reviewed this in a report that is also included in the RVE prospectus. SRK determined that the mineralisation can only be reported as a JORC compliant 'Exploration Target'. Coffey Mining is in agreement with this.

SRK reformulated the Brazil compliant tabulation and applied a 5% to -15% potential error to estimate a potential range of tonnage and grade as an Exploration Target for the Project of between 127Mt and 157Mt at a grade of between 33% Fe and 41% Fe.

Coffey Mining has disaggregated the deposit sources based on three distinct areas within the Project and presents Exploration Targets as follows:

- Cauê Itabirite Exploration Target for the Project is between 116Mt and 144Mt at a grade of between 33% Fe and 41% Fe. Other key elements are between 0.8% Mn and 1% Mn, and 0.04% P and 0.05% P.
- Gandarela Itabirite Exploration Target for the Project is between 3.9Mt and 4.8Mt at a grade of between 35% Fe and 43% Fe. Other key elements are between 3.8% Mn and 4.7% Mn, and 0.04% P and 0.05% P.
- Canga Exploration Target for the Project is between 6Mt and 7.5Mt at a grade of between 43% Fe and 53% Fe. Other key elements are between 0.5% Mn and 0.7% Mn, and 0.05% P and 0.06% P.

The information relating to Exploration Targets should not be considered as an estimate of Mineral Resources or Ore Reserves. Hence the terms Resource(s) or Reserve(s) have not been used in this context. The potential quantity and quality is conceptual in nature, since there has been insufficient work completed to define it beyond Exploration Targets and that it is uncertain if further exploration will result in the determination of a Mineral Resource.

### Mining

A conceptual study undertaken by Coffey Mining in 2009 investigated possible open pit mining options and scales of production using the Exploration Target tonnages described above. No JORC compliant

mineral resources or ore reserves were declared at that time. Nevertheless, the modelling of possible mining scenarios and costs remain valid, subject to the passage of time, and are presented to illustrate potential outcomes if further exploration leads to the declaration of JORC compliant resources.

The mining study consisted of preparing a Whittle Optimised Pit based on the Exploration Tonnages and assuming the following technical parameters:

- Overall pit slope angle 38°
- Cost of ore/waste removal R\$5/t (Cost and price assumptions for Whittle Optimisation were conservative on a trailing average basis and stated in Brazil Reais (R\$) in November 2009 when the exchange rate was US\$1 = RS1.71383.)
- Scale of production
  - Scenario 1: 6Mtpa
  - Scenario 2: 10Mtpa
- Cost of beneficiation
  - Scenario 1: R\$15/t
  - Scenario 2: R\$10/t
- Concentrate grade 66.5% Fe
- Sales price R\$55/t
- Mining recovery 100%; metallurgical recovery 80%

This study scope asked for a maximum tonnage (life of mine) model. It is not possible to report tonnage outcomes here as this would be tantamount to declaring an ore reserve.

Notwithstanding this present constraint, these data are relevant and the exploration programme proposed by RVE is designed to improve the geoscientific knowledge.

The study determined that mining should commence in the south close to the proposed plant site and the areas of higher Fe grade.

Scenario 1 showed that the deposit may support a project of 6Mtpa of Run of Mine (ROM) ore for a 16 year Life of Mine with peak total rock moved of almost 20Mtpa.

Scenario 2 showed that the deposit may support a project of 10Mtpa of ROM for a 16 year Life of Mine with peak total rock moved of almost 37Mtpa.

Mine operating costs were estimated as of the 2009 report date at US\$1.8/t mined.

For Scenario 1 the mine equipment capital cost was estimated at US\$14M and infrastructure at US\$5M, for a total capital expenditure of US\$19M. Ongoing mining capital costs were estimated at US\$12M.

For Scenario 2 the mine equipment capital costs was estimated at US\$16.1M and infrastructure at US\$7M, for a total capital expenditure of US\$23.1M. Ongoing mining capital costs were estimated at US\$15M.

### Processing

The conceptual study undertaken by Coffey Mining in 2009 investigated the process plant requirements for operations matching the mining Scenarios 1 and 2, and for a range of products into the local and international markets.

The first five years of production of up to 2Mtpa may be processed through the existing plant from Canga and other near surface lithologies for the sale of Small Lump and Coarse Sinter Feed. The ferrous-manganese Gandarela rock may be mined and blended for sale to local steel mills but investigation for selective mining to exclude Mn-rich material may be necessary.

During this period studies, designs and construction for process plants to match Scenarios 1 and 2 could be completed. Ore characterisation studies will be required for detailed plant design and the prediction of product quality. Coffey Mining provided conceptual ideas based on industry experience.

The existing 300tph plant with crushing and screening can produce Small Lump, and Coarse and Fine Sinter Feed in the proportions 30% and 15% respectively. The remaining 55%, from settling tank tailings, will be dewatered and stockpiled for processing to Pellet Feed product. Average grades of Small Lump are expected to be about 61% Fe, 5.5% SiO<sub>2</sub>, 0.08% P and 3.5% LOI, and for Sinter Feed about 62% Fe, 5.0% SiO<sub>2</sub>, 0.06% P and 3.0% LOI.

Concept plant ideas for Scenarios 1 and 2 to produce 3Mtpa or 5Mtpa Pellet Feed product (over 40% of ROM feed) were investigated. Front end crushing and screening will feed to a concentrator section using jigs or magnetic separators, spirals and flotation. Preference in design should look to maximise Fe recovery and minimise water consumption.

Milling of gravity and magnetic tailings will liberate gangue in a closed cyclone circuit. Re-concentration will produce a final Pellet Feed product. Similarly flotation circuit tailings will be re-concentrated. Paste thickener technology will be used for waste disposal.

The study considered the site layout, power requirements, water consumption and labour. Water recycling is expected to keep consumption low.

For the first five years, operating cost was estimated at US\$2.3/t (ROM).

For Scenario 1, with a plant feed of 6Mtpa (ROM), the capital expenditure for the plant and process area will be in the order of US\$85M and total local infrastructure of US\$25M.

For Scenario 2, with a plant feed of 10Mtpa (ROM) capital expenditure for the plant and process area will be in the order of US\$120M and total local infrastructure at US\$35M.

Operating cost estimates were about US\$4.80/t (ROM) with mass recovery of the final product (largely Pellet Feed) 50.5%.

### Transportation

SAFM Brazil will sell its Phase 1 products (Coarse Sinter Feed and Small Lumps) to the domestic market using trucks hauling 25t to 30t. Distances to potential Coarse Sinter Feed customers vary from 36km to 60km. Sale of Small Lump to pig iron producers will be over distances of from 20km to 137km.

Phase 2 sales to the international market will be dependent on SAFM Brazil gaining access, through agreements and contracts, to the MRS rail corridor and the Sepetiba Bay ports. SAFM Brazil has a location advantage compared to other independent iron ore producers in Minas Gerais.

### Cost Summary

For both scenarios, the following prices and costs were used:

- Concentrate price: US\$59/t of product;
- Road transport cost: US\$3.5/t of product;
- Rail transport cost: US\$11/t of product;
- Port cost: US\$9.5/t of product.

Scenario 1 total Capex was US\$129M, with a further US\$3M for exploration and evaluation. Operating costs were estimated at US\$5.6/t mined plus a provision for G&A.

Scenario 2 total Capex was US\$178M, with a further US\$3M for exploration and evaluation. Operating costs were estimated at US\$5.6/t mined plus a provision for G&A.

The concept study has outlined the opportunity to produce Pellet Feed product only. With over 40% recovery from ROM this may imply 3Mtpa to 5Mtpa of product. Engineering and pre-feasibility studies integrated with product quality and market research will determine the optimum process flow and design.

### Product and Market

A preliminary market study shows the resilience and recovery of the global iron ore market since 2008. Brazil accounts for over 30% of global exports with China the largest importer at 50%.

The iron ore industry has seen significant consolidation and vertical integration over the last 30 years, with steel producers securing sources of supply.

2010 global steel demand is set to recover by 9.2% to the level of 2008. Although the iron ore project pipeline amounts to 430Mt, Brazil accounts for only 7% of this. Projects in Brazil have seen their start up dates pushed back by delays in securing environmental licenses, for example.

Brazil is the second largest producer worldwide of iron ore, with output of 370Mt in 2008, of which 282Mt was exported and 88Mt consumed domestically. Output is highly concentrated with the Vale group accounting for 84%. The steel sector has seen strong investment in recent years and, despite some delays, there is recovery from the financial crisis with most of the steel mills now operating again.

SAFM Brazil is geographically well placed to benefit from proximity to local steel mills with several potential customers already identified.

The export market also offers opportunity for SAFM Brazil. Vale and others are looking to purchase iron ore for export. SAFM Brazil may also enter the bidding to export as third party partners through the Sepetiba Bay ports. The route for SAFM Brazil's exports is the privately owned MRS railway with a rail loading depot only 25km from the Project. The MRS corridor requires 15% of concessionaire port capacity is sold to third parties.

The US\$53.35/t average price used in SAFM Brazil's financial projections for Phase 1 is in line with pricing levels currently practised in the market as follows:

|                    |              |                    |                    |
|--------------------|--------------|--------------------|--------------------|
| Coarse Sinter Feed | US\$22.00/t  | 40% of production  | (US\$9/t in 2009)  |
| Small Lump         | US\$75.580/t | 60% of production. | (US\$30/t in 2009) |

### Environmental Permitting

Environmental issues inherited with the acquisition of the Project in 2008 put a hold on any short term production ambitions of SAFM Holdings at that time. Negotiation with the Public Attorney's Office successfully completed negotiation of a process of rectification and remediation. A Legal Agreement was executed on 28 September 2009.

SAFM Brazil undertook to make environmental rectification and remediation, as well as a commitment to pay compensation. An Environmental Impact Assessment was completed together with an Environmental Impact Report, an Environmental Control Plan, a Conceptual closure plan and Social-environmental proposals.

SAFM Brazil has completed all the rectification and remediation requirements with the exception of certain issues regarding the Aredes Park; until this park is officially created and opened these issues will remain outstanding. SAFM Brazil will donate fire extinguisher equipment kits, hire an employee to monitor the park for 5 years and fence the park. However, the remedial work completed and reported has been reviewed and inspected by the relevant authority, and a Report has been issued by the State Licensing Environmental Office. SAFM Brazil's licensing request was voted and approved for operations and the requested licenses (LP and LI) were issued on 30 August 2010.

Coffey Mining has examined the documents and it appears that the legal requirements have been fulfilled and the disputes settled. Application for the Operation License has been submitted and is anticipated to be issued by the end of September 2010.

### **Occupational Health and Safety**

SAFM Brazil has prepared a policy document outlining the company's standards for application of the Brazil Regulatory Standard 22 (occupational health and safety in mining).

SAFM Brazil has addressed four major programmes and plans:

- Occupational Health Medical Prevention Plan (PCMSO);
- Risk Management Plans (PGR);
- Emergency Action Plan;
- Vehicular Transit Plan.

SAFM Brazil is not only aligned with the Standards discussed above, but is also aligned with the legal requirements of the Brazilian Ministry of Labour, the Health Ministry and the fire department.

### **Risk Assessment**

A preliminary risk analysis has identified the following high risk items:

- Continuity of iron ore mineralisation and continuity of grade
- Absence of JORC compliant Resources
- Absence of JORC compliant Reserves
- Capital costs and Operating costs
- Transport of export product
- Price of concentrate product

Current or planned resource evaluation drilling, project engineering and pre-feasibility studies, and marketing agreements will mitigate all these items.

### **Conclusions and Recommendations**

A conceptual mining study for the Project has indicated the foundation for a viable project, subject to several qualifying factors.

Although the geology is well understood and the mineralisation is similar to that elsewhere in the region, resources cannot be reported at this time. The Exploration Tonnages and grades will require a new evaluation drilling programme.

Conceptual mining studies have demonstrated the viability of a simple open pit mining operation, subject to confirmation of compliant mineral resources compliant with the JORC Code and updated more detailed costing.

Plant process studies have applied knowledge and experience from the well established local iron ore mining industry and shown how both short term and medium term iron ore products can be extracted to meet market specifications.

RVE has a strategy for project development. Product quality and market conditions together with transport scenarios are critical for the production scenarios targeted by the company. Achievement of these targets will require careful negotiation as well as feedback to the technical studies planned to ensure expectations can be met and contracts achieved.

Coffey Mining recommends the following:

- Short term production to generate cashflow
- Resource evaluation drilling for the purpose of estimating and declaring of JORC compliant mineral resources
- Metallurgical testwork to achieve the targeted product qualities
- Pre-feasibility studies for project development of larger scale production

An exploration and development budget for the Ponto Verde Project has been provided by RVE covering the first two year period following listing. The total proposed budget is A\$15M and the budget detail is shown in Table 1. Coffey Mining consider that the proposed expenditure is appropriate given the prospectivity and potential of the Project and is sufficient to satisfy the statutory expenditure requirements for the licenses. The total proposed expenditure is considered by Coffey Mining to be consistent with achieving a Pre-feasibility Study level of detail depending on the outcomes of the programme.

| <b>Table 1</b><br><b>Ponto Verde Project</b><br><b>Ponto Verde Project Budget</b> |                       |                       |                      |
|-----------------------------------------------------------------------------------|-----------------------|-----------------------|----------------------|
| <b>Activity</b>                                                                   | <b>Year 1<br/>A\$</b> | <b>Year 2<br/>A\$</b> | <b>Total<br/>A\$</b> |
| Ponto Verde – JORC Drill Programme                                                | 2,500,000             |                       | 2,500,000            |
| Upgrade to existing plant infrastructure                                          | 2,000,000             |                       | 2,000,000            |
| Ongoing Project Evaluation                                                        |                       | 2,500,000             | 2,500,000            |
| Working Capital and Feasibility Studies                                           | 3,000,000             | 4,050,000             | 7,050,000            |
| Expenses of the Offer                                                             | 950,000               |                       | 950,000              |
| <b>APPLICATION OF FUNDS</b>                                                       | <b>8,450,000</b>      | <b>6,550,000</b>      | <b>15,000,000</b>    |

## 1 INTRODUCTION

### 1.1 Terms of Reference

Riviera Resources Limited (RVE) has commissioned Coffey Consultoria e Serviços Ltda (Coffey Mining) to prepare an Independent Technical Report on the Ponto Verde Project in Minas Gerais State, Brazil. The Ponto Verde Project is currently held by SAFM Mineração Ltda (SAFM Brazil), the Brazilian company owned 100% by South American Ferro Metals Limited (SAFM Holdings) being acquired by RVE. The Report has been requested to accompany a prospectus to be prepared by RVE and lodged with ASIC in or around October 2010.

The legal status of the asset in which RVE has an interest, the various agreements covering those interests, and the exploration, mining and minerals processing legislation applicable in Brazil have not been independently verified by Coffey Mining. The present status of the tenement, agreements and legislation described in this report is based on information provided by RVE and the report has been prepared on the assumption that exploration and potential development of the iron ore project will prove to be lawfully allowable. Coffey Mining is not qualified to comment of the nature of the transaction or scheme of arrangements between RVE and SAFM Holdings. These aspects are the subject of a separate disclosure.

The Independent Technical Report has been prepared on information available up to and including 22 September 2010. The conclusions expressed in this report are therefore only valid for this date and may change with time in response to variations in economic, market, legal or political factors, in addition to on-going developments with respect to the planned exploration and development activities. All monetary figures included in this report are expressed in United States dollars (US\$) or Australian dollars (A\$), unless otherwise stated.

### 1.2 Qualifications, Experience and Independence

Coffey Mining is an exploration, mining and resource consulting firm, which has been providing services and advice to the international mineral industry and financial institutions for over 50 years.

The primary author of this report is Dr Norman Lock who is a professional geologist with over 35 years experience in the exploration, evaluation and development of mineral properties internationally. Dr Lock is the VP Coffey Mining Canada and Senior Principal Geologist. He is a Chartered geologist and Fellow of the geological Society of London (CGeol FGS), a Member of the Geological Society of South Africa (MGSSA) and a Professional Natural Scientist registered with the South African Council for Natural Scientific Professions (PrSciNat).

Additional Coffey Mining consultants Bernardo Viana, Joao Hilario, Ricardo Cordeiro and Porfirio Rodriguez were retained as “Specialists” to respectively assist in the review of the geology and exploration target sizes, mining, metallurgy and processing aspects, site

inspection and risks associated with the Project. All these consultants are Members of the Australian Institute of Geoscientists (MAIG).

Each of the authors has the appropriate relevant qualifications, experience, competence and independence to be considered an “Expert” under the definitions provided in the Valmin Code and as “Competent Persons” under the definition provided in the JORC Code.

Neither Coffey Mining, nor the authors of this report have, or have had previously, any material interest in MRL or the mineral properties in which MRL has an interest. Our relationship with MRL is solely one of professional association between client and independent consultant. This report is prepared in return for professional fees based upon agreed commercial rates and the payment of these fees is in no way contingent on the results of this report.

Coffey Mining is not in a position to make direct comment on any interest the directors and promoters of RVE may have in the company or its assets, nor is Coffey Mining qualified to comment on or confirm this aspect.

### **1.3 Principal Sources of Information**

The principal sources of information used to compile this report comprise technical records, along with technical reports and data variously compiled by RVE and its consultants and government agencies, along with discussions with RVE technical and corporate management. A listing of the principal sources of information is included in Section 7 of this report.

In addition, a site visit was undertaken to the Ponto Verde Mine on 10 September 2010 by Dr Norman Lock, Mr Bernardo Viana and Mr Ricardo Cordeiro.

All reasonable enquiries have been made to confirm the authenticity and completeness of the technical data upon which this report is based. A final draft of this report was also provided to RVE, along with a written request to identify any material errors or omissions.

## **2 COUNTRY BACKGROUND**

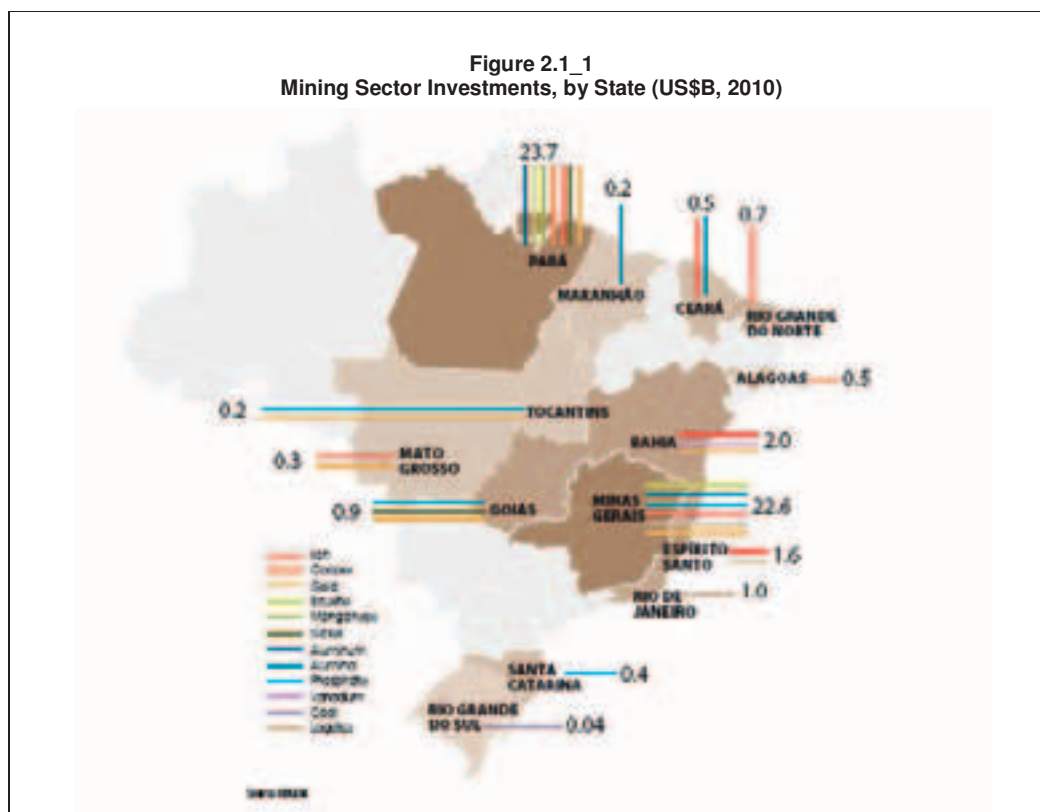
### **2.1 Minerals Industry**

Brazil is a world leader in minerals production and markets about 80 mineral commodities, including aluminum, bauxite, cement, ferroalloys, gold, iron ore, kaolin, lead, manganese, nickel, steel, and tin. The country is the world's leading producer of iron ore and niobium, and the second ranked producer of bauxite and manganese. The total value of minerals produced exceeds \$100 billion, or about 5% of the GDP.

Brazil's major integrated steel operations have the capacity to produce over 40Mtpa of crude steel. In 2008, Brazil was the eighth ranked producer of raw steel in the world and the leading producer in Latin America. In 2008, Brazilian crude steel production amounted to 33.7Mt.

Brazil was the second ranked iron ore producer in the world after China with an output of 352Mt; Vale S.A. produced 293.4Mt, or 83% of Brazil's iron ore production<sup>1</sup>.

The global financial crisis during 2008 and 2009 appears not to have deterred investor interest in the country's mining and petroleum industries (Figure 2.1\_1). Brazil's varied mineral resources and reserves, skilled labour, and macroeconomic policies have combined to maintain this confidence. Leading international minerals companies are interested in oil and gas, iron ore, steel, coal, gold, copper, and diamond (in order of value).



## 2.2 Brazil Mining Legislation

The “Código de Mineração do Brasil” (Mining Code Decree 227 dated 27 February 1967) determines the rights to minerals in Brazil. The National Department of Mineral Production (DNPM) enacts and administers regulations for the management of these rights. Applications for mineral rights are submitted to DNPM.

<sup>1</sup> Departamento Nacional de Produção Mineral; Instituto Aço Brasil; Vale S.A.

With DNPM's approval, mineral rights (Exploration Permits or Mining Concessions) may be totally or partially assigned or transferred to other parties by their holder. The administrative processes for the assignment or transfer are similar, subject to specific conditions for each process. A specific administrative request must be filed in both cases by the interested party at the DNPM, according to the provisions set forth in Ordinance 119, dated 14 July 2006, enacted by DNPM.

Financial conditions attached to the mineral rights are summarised in Table 2.2\_1. Municipalities, States, and the Federal Government benefit from mineral exploitation. The Constitution of 1988 established the CFEM to compensate for the economic use of mineral resources. Over the years CFEM collections have been growing exponentially: In 2010, it is estimated that revenues will exceed US\$550M.

| <b>Table 2.2_1</b><br><b>Ponto Verde Project</b><br><b>Financial Conditions for Brazilian Mining Operations</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                      |
|-----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| Rule                                                                                                            | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Applicable Law Provision                                                             |
| Payment of CFEM Tax                                                                                             | Financial Compensation for the Exploitation of Mineral Resources (CFEM) is a tax payable by the operator on the sale of raw or processed minerals, at a rate of: <ul style="list-style-type: none"> <li>• 3% for manganese, potassium, rock salt and aluminium ore;</li> <li>• 2% for iron, fertilisers, coal and other mineral substances;</li> <li>• 1% for gold; and</li> <li>• 0.2% for precious stones, cuttable gemstones, carbonates and precious metals.</li> </ul> DNPM Act 439, article 2, states that any defaulting party shall not be able to apply for: <ul style="list-style-type: none"> <li>• the extension of Exploration Permit terms;</li> <li>• temporary interruption of the exploitation;</li> <li>• DNPM's approval of company mergers, acquisitions or spin-offs, as well as mining rights assignments and transfers.</li> </ul> | Federal Law 7.990, articles 1 and 6.<br>Decree 01, article 15.<br>Federal Law 8.001. |
| Surface Entitled Person Compensation                                                                            | The operator shall also pay the person entitled to the surface area a compensation of 50% of CFEM's due amount.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Mining Code, article 11, item "b".                                                   |

## 2.3 Brazil Environmental Legislation

Article 225 of the Brazilian Constitution requires reclamation and rehabilitation of mined out areas by the operators. All possible polluting activities are required to be licensed in terms of the Brazilian National Environmental Policy (Federal Law 6.938 of 31 August 1981). Regulations for the administration are contained in Resolution 237 of CONAMA (National Council of the Environment) on 19 December 1997. CONAMA sets the conditions, limits and measures for the control and use of natural resources, and permits the implementation and operation of projects. Licenses are issued by either a federal, state or a municipal agency.

The areal extent of the proposed impact is considered by CONAMA in determining the issue of a license and is based on regulations in Resolution 237/97, which are listed below:

- Federal entities are responsible for licensing activities which may cause national or regional-level environmental impact (more than two federal States).
- State entities and Federal District Entities are responsible for the activities which may cause State-level environmental impact (two or more cities).
- Municipal entities are responsible for licensing the activities, which may cause local environmental impact (within city limits).

The license may be issued in one of the forms described in Table 2.3\_1.

| <b>Table 2.3_1</b><br><b>Ponto Verde Project</b><br><b>Main Environmental Licensing Stages of Brazilian Mining Projects</b> |                                                                                                                                                                 |
|-----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| License                                                                                                                     | Description                                                                                                                                                     |
| Preliminary License (LP*)                                                                                                   | Indicates environmental viability of project. Location and concept approval, subject to a specific environmental impact assessment and a formal public hearing. |
| Installation License (LI*)                                                                                                  | Authorises project initiation. Permits the engineering work, subject to an environmental control plan.                                                          |
| Operation License (LO*)                                                                                                     | Authorises the start of operations. Requirement to demonstrate establishment of all the environmental programmes and control systems.                           |

\* Brazilian abbreviation

The license will be subject to approval by the relevant municipality to confirm conformity with the Organic Act and the Municipal Law of Use and Occupation of the Terrain. This will be particularly important for the LP.

In addition to the environmental license process and in accord with Resolution 237/97, the requirements of the preliminary licensing phase also include:

- Approval to use water resources.
- The Authorisation for Forest Exploration (APEF) which is required in the cases where there is change in the soil usage or vegetation suppression.
- The authorisation for disturbance of vegetation in Permanent Areas of Preservation (APP) or in Units of Conservation (UC) by the Authorised Environmental entity.

### 3 PONTO VERDE PROJECT BACKGROUND

#### 3.1 Agreements and Company Structure

RVE has executed a Share Sale Agreement with the shareholders of SAFM Holdings to purchase 100% of the issued capital of SAFM Holdings. SAFM Holdings owns 100% of SAFM Brazil, which in turn owns the Ponto Verde iron ore project.

RVE will issue to the shareholders of SAFM Holdings (pro rata in accordance with their interest in SAFM Holdings) 83,977,967 Shares and 251,933,901 performance shares, convertible to fully paid ordinary shares of RVE on a one-for-one basis as progressive milestones are reached.

| Class of Performance Share | Number of Performance Shares | Milestone                                                                                                                                                                                               |
|----------------------------|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Class A                    | 83,977,967                   | A project production rate of 800ktpa over a continuous three month period.                                                                                                                              |
| Class B                    | 83,977,967                   | A JORC compliant resource of iron ore on the project reaching or exceeding 50Mt.                                                                                                                        |
| Class C                    | 83,977,967                   | (i) A JORC compliant resource of iron ore on the project reaching or exceeding 140Mt; or<br>(ii) A project production rate of 800ktpa over a continuous twelve month period, whichever may occur first. |
| Total                      | 251,933,901                  |                                                                                                                                                                                                         |

#### 3.2 Project Location, Access and Physiography

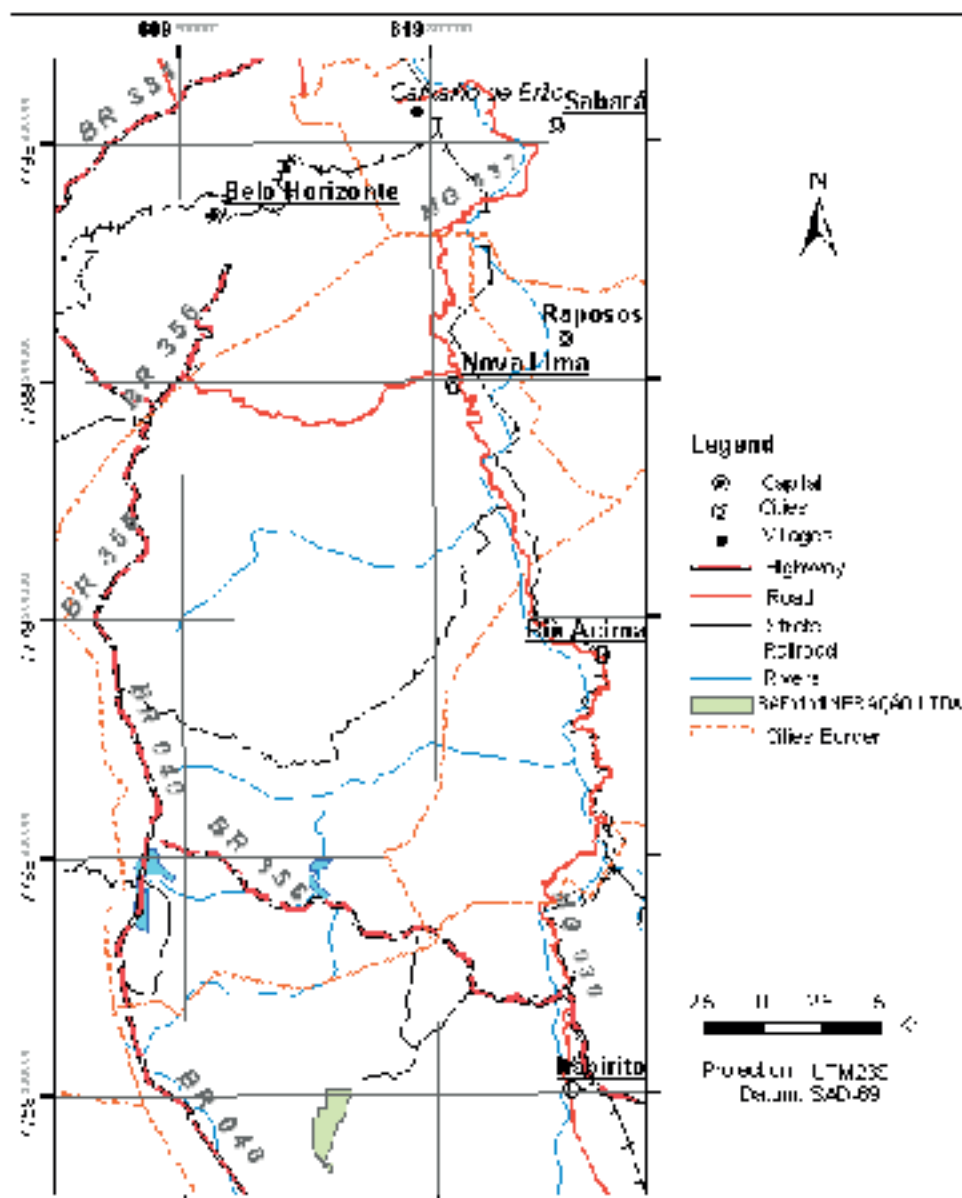
The Project is located in the Quadrilátero Ferrífero (Iron Quadrilateral), about 40km to the south of the city of Belo Horizonte in the State of Minas Gerais, Brazil. The Iron Quadrilateral is a prolific iron ore mining area, and the Project is located proximate to established mining operations, and iron and steel plants.

The Project (Figure 3.2\_1) is located within a network of established infrastructure and is strategically adjacent to ground held by Brazilian Mining giants Vale, CSN and Ferrous Resources Limited's development areas.

The existing mine is situated on the Fazenda Retiro Novo Farm, District of the City of Itabirito, State of Minas Gerais, in the hills northwest of the Serrinhas Mountain range and west of the Aredes stream. The country is largely open grassland and scrub with some forest plantations and indigenous woodland in view.

Access to the Project is by highway BR-040, then the road to the Pico Mine, and then on a good dirt road for the final 5km or so. The roads are usually all in good conditions as they are in use throughout the year for producing mines.

Figure 3.2\_1  
Ponto Verde Project location



Location Map - Ponto Verde Project - SAFM

### 3.3 Mineral Tenure

SAFM Brazil holds a Mining Concession (DNPM-831.929/84) with area 267.56ha, under which a Mining Permit has been granted. The Mining Permit is owned by SAFM Brazil and covers a surface area of 150ha.

Title by acquisition and transfer from Verde Ponto Mineração Ltda was approved by DNPM on 16 December 2008.

The term of the Mining Permit is open ended, which means that, provided SAFM Brazil observes the legal requirements relating to the Mining Permit, it will be valid until the depletion of the reserves within the Project.

The legal requirements for maintaining the Mining Permit include annual and occasional reports to government, payment of a 2% royalty on net revenue from iron ore sales, and obtaining and maintaining the environmental licenses as discussed in Section 2.3 of this report.

Coffey Mining is informed an additional royalty of 1% of net revenue may also be payable to a third party in relation to a 32ha portion of the property. There is a dispute between previous landowners that will determine if this royalty is payable but this unresolved dispute is understood not to affect the entitlement to exploit the deposit.

Coffey Mining has not (and is not qualified to) verified the legal status of this mineral concession or mining permit.

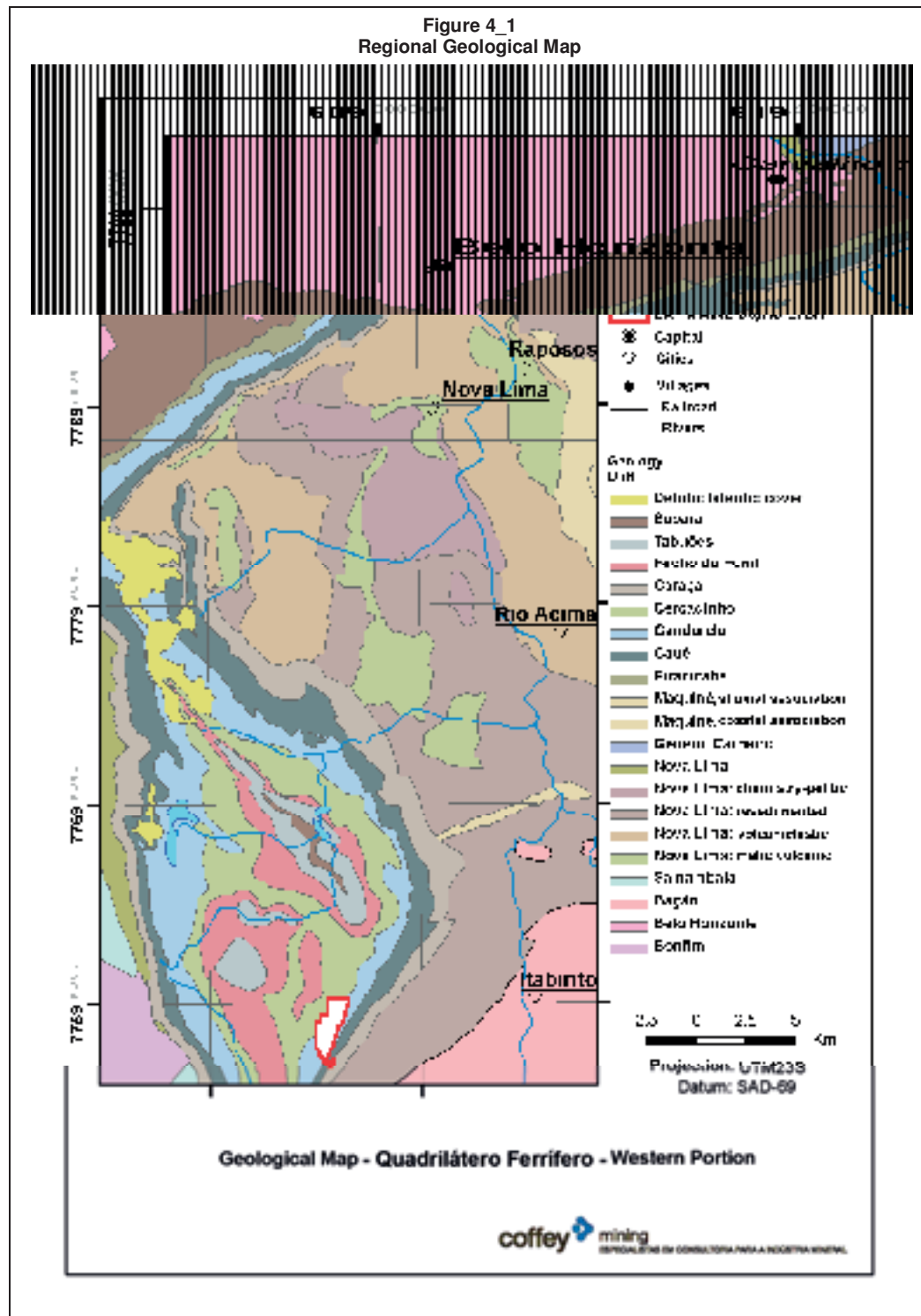
### 3.4 Project Infrastructure

All of the current Project infrastructure, including plant and machinery, is owned by SAFM Brazil. This plant comprises a primary grizzly feed and jaw crusher, all conveyor belt feeds, secondary jaw crushers and two double deck vibrating screens. SAFM Brazil has replaced the entire electrical cabling, some electrical motors, the belt conveyors' accessories and created new electrical and control rooms.

All this equipment is in good condition.

Access within the Project boundaries is by dirt tracks in good condition. The regional road network outside the Project boundary is generally good and well used by other mining operations. Electrical power is currently by diesel generator with regional mains power interconnection possible when demand requires. Plant and potable water is, and will be, from groundwater sources within the Project area.

## 4 REGIONAL GEOLOGY



The Project is located within the Iron Quadrilateral, an area of early Paleoproterozoic (2.5Ga – 1.6Ga) sedimentation and volcanism, including Banded Iron Formations (BIF), overlying the Archean São Francisco Craton. This association is broadly similar to the well known BIFs in South Africa and Australia. All three areas were brought together in Gondwanaland before splitting apart again into the present day continental configurations.

The basal granite-gneiss and greenstone Archean units are shown in Figure 4\_1 to the north of Belo Horizonte and in the southeast around Itabirito. The Iron Quadrilateral comprises Paleoproterozoic metasedimentary sequences showing a complex deformation history with folding and thrust faults determining the present day configuration of the units.

The iron deposits of the Iron Quadrilateral are found within BIFs, locally known as itabirite after the town of Itabirito. The full sequence of Minas Supergroup metasediments comprise basal conglomerates and sandstones grading upwards into marine pelitic sediments, followed by chemical sediments (BIF and dolomite) that are the host for the mineralisation reported for this Project in the Cauê and Gandarela Formations of the Itabira Group. These formations are overlain by schists, phyllites, quartzites and cherts of the Piracicaba Group. Upward in the sequence are meta-volcaniclastites, turbidites, conglomerates and more BIFs. Unconformably overlying the Minas Supergroup are more meta-sediments intruded by mid-Paleoproterozoic-age granites, pegmatites and diabase.

At the present day erosion level, there is a lateritic cap (Canga) to the iron deposits and host rocks. The Canga is typically composed of detrital fragments, of iron ore or itabirite, cemented by goethite and is another potential mineral deposit.

## 5 PONTO VERDE PROJECT

### 5.1 Exploration History

Figure 5.1\_1  
Historic mining pit at south of Project



Coffey Mining has been unable to establish any detailed history for the Project but it is patent from Figure 5.1\_1 that a significant volume of rock has been removed. Clearly this has

included iron mineralisation but a search of records at the DNPM was not able to locate any records of production prior to the acquisition of the property by SAFM Brazil. Anecdotal information suggests the mining activities were directed at smaller near surface higher grade material.

## 5.2 Project Geology and Mineralisation

The Project is located within the eastern flank of the north-south striking Moeda Syncline. Within the Project area, the lithologies of economic interest are within the Itabira Group and overlain by the Piracicaba Group. The manganese and iron deposits are hosted in the Gandarela and Cauê Formations of the Itabira Group.

The manganese deposits are generally in areas of low relief, whereas the iron ore deposits form steep hills and ridges. Canga deposits in the southern central region of the Moeda Syncline were mined in the past.

The main lithologies present in the Project area are soft itabirite of the Cauê and Gandarela Formations, clastic metasedimentary rocks (quartzite and phyllite) of the Moeda and Batatal Formations and dolomites and weathered iron-manganese formations of the Gandarela Formation, in addition to Tertiary argillaceous sedimentary deposits, cangas and soil coverage.

The Ponto Verde mineralisation occurs continuously over more than 2km, from the southern boundary to the central part of the Project area. In this region, the Cauê Formation strikes N30°E to N45°E with thickness around 100m. Thickness variation is controlled by second-order internal folding, with fold axes oriented NE-SW. These folds produce strong variations in the dip of the layers, ranging from 20° to 85° to both the SE and NW.

Coffey Mining reported the results of exploration drilling and sampling, and SRK has recently reviewed this in an IGR that will be incorporated into the RVE prospectus.

Coffey Mining prepared a geological model based on four mineralised domains:

- Poor semi compact Cauê Itabirite
- Moderately Friable Cauê Itabirite
- Gandarela Itabirite and Colluvium
- Waste lithologies were not specifically modelled

Coffey Mining presented estimates, reported here in agreement with SRK as an 'Exploration Target'.

SRK determined that a reasonable Exploration Target for the Project is between 127Mt and 157Mt at a grade of between 33% Fe and 41% Fe, for total contained iron of between 42Mt and 68Mt.

It is worth noting that this statement results from aggregating mineralisation from several sources. In the context of RVE's plans for the development of the Project the various sources should be reported separately; the short term production will comprise Canga and other undetermined surface lithologies; the longer term production (Scenarios 1 and 2 in Section 5.3) will comprise Cauê Itabirite; the Gandarela Itabirite is high-Mn mineralisation and may blend with the Canga for local sales or require special consideration yet to be tested.

Table 5.2\_1 provides a disaggregated compilation of the Exploration Targets.

| <b>Table 5.2_1</b><br><b>Ponto Verde Project</b><br><b>Tonnes and grade ranges (disaggregated)</b> |      |      |     |     |     |
|----------------------------------------------------------------------------------------------------|------|------|-----|-----|-----|
| <b>Variance</b>                                                                                    | -15% | -10% | -5% | 0%  | 5%  |
| <b>Cauê Itabirite</b>                                                                              |      |      |     |     |     |
| Tonnes (Mt)                                                                                        | 116  | 123  | 130 | 137 | 144 |
| Grade (Fe%)                                                                                        | 33   | 35   | 37  | 39  | 41  |
| <b>Gandarela Itabirite</b>                                                                         |      |      |     |     |     |
| Tonnes (Mt)                                                                                        | 4    | 4    | 4   | 5   | 5   |
| Grade (Fe%)                                                                                        | 35   | 37   | 39  | 41  | 43  |
| <b>Canga</b>                                                                                       |      |      |     |     |     |
| Tonnes (Mt)                                                                                        | 6    | 6    | 7   | 7   | 8   |
| Grade (Fe%)                                                                                        | 43   | 45   | 48  | 50  | 53  |

Numbers have been rounded to show results are estimates

Using these disaggregated estimates, a reasonable Cauê Itabirite Exploration Target for the Project is between 116Mt and 144Mt at a grade of between 33% Fe and 41% Fe, for total contained iron of between 38Mt and 58Mt.

Using these disaggregated estimates, a reasonable Gandarela Itabirite Exploration Target for the Project is between 3.9Mt and 4.8Mt at a grade of between 35% Fe and 43% Fe, for total contained iron of between 1.4Mt and 2.1Mt.

Using these disaggregated estimates, a reasonable Canga Exploration Target for the Project is between 6Mt and 7.5Mt at a grade of between 43% Fe and 53% Fe, for total contained iron of between 2.6Mt and 3.9Mt.

The potential quantity and grade noted here is conceptual in nature. There has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource.

### 5.3 Mining Studies

In 2009 Coffey Mining undertook a conceptual study of possible mining options and scales of production, using the exploration target tonnages and grades discussed in Section 5.2. The

clearly stated objective was to maximise the life of mine. At that time SAFM Holdings was a private company incorporated in the British Virgin Islands and the work was conducted with compliance to the Brazil Mining Code. Figure 5.3\_1 is a view across the project area showing the extent of previous activities and operations.

The modelling and costing of these scenarios remain valid, subject to the passage of time, but the outcomes cannot be reported as “Ore Reserves” under the JORC Code. The scenarios are presented here to convey the potential outcomes and costs if further exploration results in the reporting of JORC compliant resources.

**Figure 5.3\_1**  
**Aerial view of Ponto Verde Mine looking southeast**



The work methodology for the development of the conceptual pits involved the following activities:

- Definition of the geometric and economic assumptions and the block value;
- Open pit modelling using Whittle software (based on economic and geotechnical assumptions and taking into consideration geographic, physical, environmental, legal and property restrictions).

The preliminary overall pit slope angle, assuming a single domain, was 38°. The proposed pit is composed of rock with good geotechnical character which can handle face angles of the order of 50°. Geotechnical studies will be required to better characterise the existing

structures. This should include field and laboratory testing, including of waste rock and tailings.

The assumptions made for the Whittle Optimised Shell were:

- Block dimensions: x=12.5m, y=12.5m and z=10m
- Overall slope angle: 38°
- Physical limits specified by SAFM Brazil
- Physical limits of Aredes Park
- Cost of ore or waste rock moved: R\$5/t<sup>2</sup>
- Scale of production
  - Scenario 1: 6Mtpa
  - Scenario 2: 10Mtpa
- Cost of beneficiation:
  - Scenario 1: R\$15/t
  - Scenario 2: R\$10/t
- Sales prices of the products: ((-1½"+¼"), (-¼"+1.00mm), (-1.00mm+100mesh (Tyler Standard Screen Scale Sieve Series)), Pellet Feed ) assuming a three year trailing average and transport-discounted FOB price ex-mine of R\$55/t, excluding ICMS/CFEM tax
- Mining recovery 100%
- Average concentrate grade of 66.5% Fe ((-1.00mm+100mesh), (-100mesh))
- Metallurgical recovery of 80%
- Mass process recovery of 50.6
- Extraction dilution was not considered.

The estimated costs were based on Coffey Mining's in-house database and 2008 market prices.

Initial block dimensions, 50m x 25m x 10m, were based on the borehole grid spacing. Whittle pit optimisation was performed with 12.5m x 12.5m x 10m block dimensions to better fit the physical restrictions of the project.

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<sup>2</sup> Cost and price assumptions for Whittle Optimisation were conservative on a trailing average basis and stated in Brazil Reais (R\$) in November 2009 when the exchange rate was US\$1 = R\$1.71383.

This conceptual study and pit optimisation assumed model development using all the exploration target tonnages without constraint by the legal physical limits of the property. The pit shells were found to extend beyond these physical limits; however there is provision under the Brazil Mining Code for mining to extend beyond property boundaries, by prior agreement with the neighbouring property owner and with approval of DNPM (see Section 2.3).

The Whittle Optimised Shells for both Scenarios 1 and 2, ROM 6Mtpa and 10Mtpa respectively, were examined for the maximum tonnage, or life of mine.

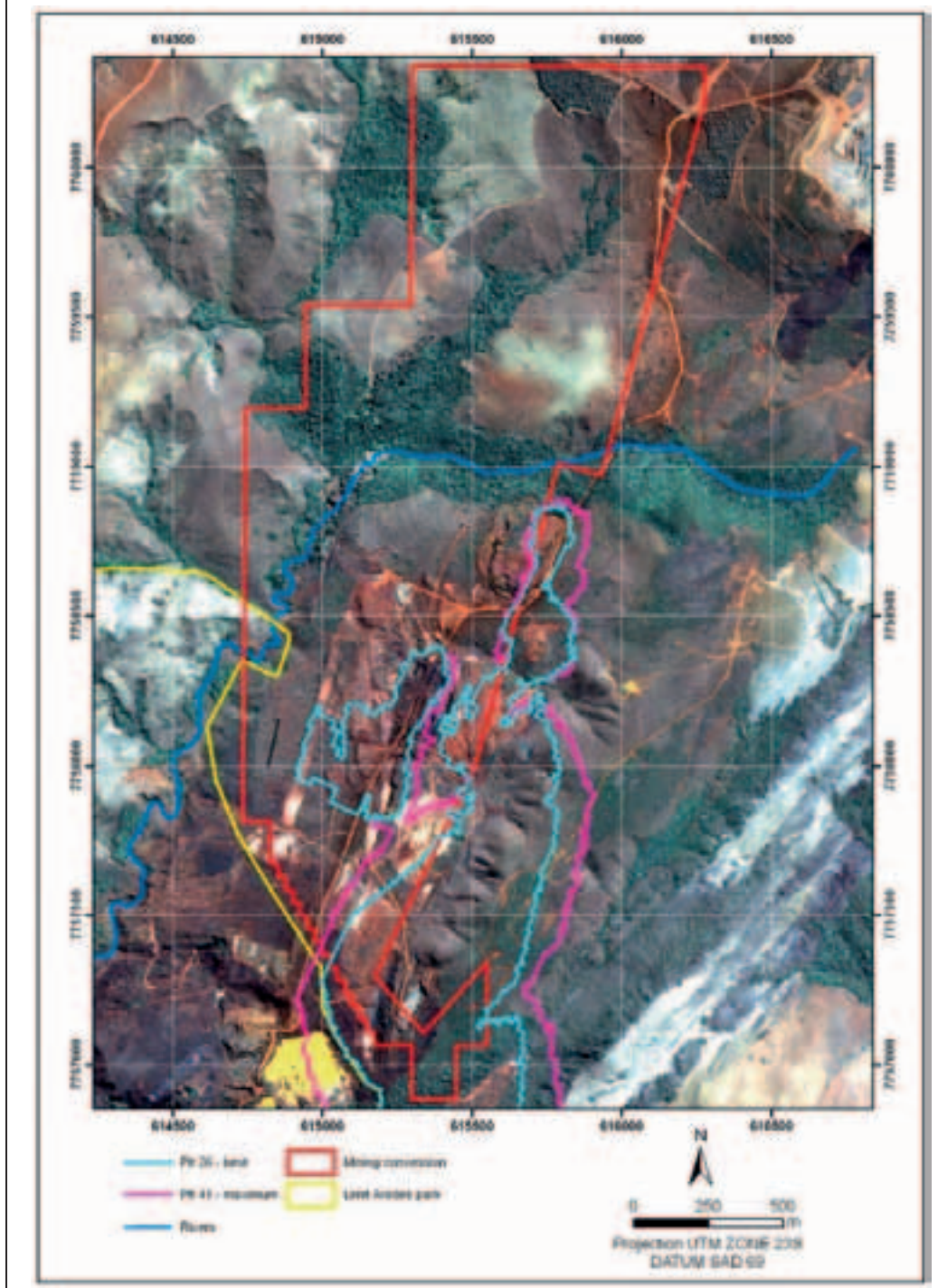
In this report, because there are no JORC compliant resources, it is not possible to report the tonnage outcomes as this would be equivalent to declaring Ore Reserves. Exploration Target mineralisation that is not a mineral resource does not have demonstrated “reasonable prospects for eventual economic extraction”. The conceptual study included exploration target mineralisation which is considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorised as Ore Reserves. Furthermore, there is no certainty that further exploration and resource estimation will confirm the target potential and actual results may vary substantially. Nevertheless, these data are considered relevant and the proposed exploration programme presented by RVE will address the requirement to improve the geoscientific knowledge and enable the potential estimation of JORC compliant resources and reserves.

On the assumption that the proposed programme will allow for the estimation of mineral resources, this conceptual study is anticipated to be validated and the operations of a working pit will be as follows:

- |                                   |     |
|-----------------------------------|-----|
| ▪ Bench height                    | 10m |
| ▪ Minimum berm                    | 5m  |
| ▪ Face angle                      | 52° |
| ▪ Minimum dimension of pit bottom | 50m |
| ▪ Ramp width                      | 10m |
| ▪ Maximum incline of the ramps    | 10% |
| ▪ Overall slope angle             | 38° |

Figure 5.3.2\_1 shows the possible pit configuration if all the assumptions are validated.

Figure 5.3.2\_1  
Possible Pit Configuration



Mine planning of annual production and the mining sequence of conceptual ore and waste blocks was prepared for Scenarios 1 and 2. It was determined that mining should start in the south close to the proposed plant site and the mineralisation with the higher Fe grade. This approach would also free up space for plant expansion, as the pit moves northwards, thus reducing tramming distances and costs.

For both scenarios consideration was given to waste rock/ore ratios and mineralisation grade of the plant feed to meet product targets and minimise costs.

The Scenario 1 production programme showed that the deposit is large enough to support a project of 6Mtpa of ROM for a Life of Mine of about 16 years with peak total rock moved of almost 20Mtpa.

The Scenario 2 production programme showed that the deposit is large enough to support a project of 10Mtpa of ROM for a Life of Mine of about 16 years with peak total rock moved of almost 37Mtpa.

#### 5.4 Mining Costs

Coffey Mining prepared estimates in November 2009 of mining equipment fleet size and cost for Scenarios 1 and 2, based on in-house databases and industry methodology for scoping studies. The types and sizes of equipment were based on the production rates for ore and waste, transport distances, work schedule and mechanical availability, as well as local knowledge in other iron ore operations nearby.

The operating costs were estimated at US\$1.8/t mined for both the initial production period and the increased production scenarios. This cost contrasts with the conservative number used for Whittle Optimisation.

For Scenario 1, with near to 9.5Mtpa being mined, the mine equipment was estimated at US\$14M and infrastructure at US\$5M, for a total capital expenditure of US\$19M. Ongoing mining capital costs were estimated at US\$12M.

For Scenario 2, with near to 16Mtpa being mined, the mine equipment was estimated at US\$16.1M and infrastructure at US\$7M, for a total capital expenditure of US\$23.1M. Ongoing mining capital costs were estimated at US\$15M.

#### 5.5 Process Plant Studies

In 2009 Coffey Mining prepared a study of the process plant requirements for operations matching the mining Scenarios 1 and 2, and for a range of products into the local and international markets. The plant concepts were largely based on data and information gathered from other existing similar and near-by concentration plants.

For the first five years of production up to 2Mtpa of ROM may be processed in the existing plant (Figure 5.5\_1) from feed of duricrust/hardpan, colluvium (Canga) and other mineralized

lithologies for the production of Small Lump and Coarse Sinter Feed. The existing plant may also be used for the beneficiation and blending of the ferrous-manganese rock (Gandarela) for customers such as Açominas, Gerdau and Usiminas. Investigation of selective mining to exclude Mn-rich material may also be necessary. During this period studies, designs and construction for process plants to match Scenario 1 and/or 2 could be completed and become operational.

**Figure 5.5\_1**  
**View across existing Ponto Verde plant**



The plant for increased production should be located in an area where initial mining in years one to five has removed all mineralised rock

Studies will be required to better define the parameters for crushing and wet screening, as well as concentration processes. Bench and pilot scale tests will be required to refine the process flow sheet. These studies will also facilitate the estimate of water consumption and re-cycling.

Ore characterisation studies, using medium and large samples of all rock types, will be required for detailed plant design of the plants for Scenario 1 and 2, and the prediction of product quality.

The greater portion of the Ponto Verde deposit is comprised of itabirite and the second phase of project development in Scenarios 1 and 2 will provide this material as ROM to the plant. Although metallurgical testwork has not been undertaken at this stage, Coffey Mining provided a

comprehensive schedule of the work required to characterise the itabirite and develop a process for the concentration and recovery of several products. These tests would include particle size distribution, chemical analysis, density, mineralogy, magnetic properties, flotation and milling properties, among others. The data collection and analysis will facilitate the design of plant flowsheets for the recovery of Small Lump, Sinter and Pellet Feed products, as well as the disposal and treatment of tailings and water.

The existing plant will comprise a simple crushing and screening arrangement for the production of Small Lump, Coarse Sinter Feed and Fine Sinter Feed products. SAFM Brazil has defined these products by size as follows:

- Small lump                      -22mm +8mm
- Coarse Sinter Feed        -8mm +2m
- Fine Sinter Feed            -2mm

The Fine Sinter Feed could be blended with the Coarse Sinter Feed to obtain only one Sinter Feed product.

Coffey Mining modelled an operation running continuously for a total 7000h per annum with an assumed 2Mtpa ROM feed. This is achievable in the existing plant with an installed capacity of 300tph, although minor modifications can be expected to achieve operational efficiency improvements.

Primary and secondary crushing, and wet screening through a simple circuit will produce the planned sized products, Small Lump and Sinter Feed, in the proportions 30% and 15% respectively. The Pellet Feed product, about 55%, from the settling tank tailings will be dewatered and stockpiled for processing in the large scale plant. The Small Lump and Sinter Feed products will be sold into the local market. The average grade expected for the Small Lump is about 61% Fe, 5.5% SiO<sub>2</sub>, 0.08% P and 3.5% LOI; the average grade expected for the Sinter Feed is about 62% Fe, 5.0% SiO<sub>2</sub>, 0.06% P and 3.0% LOI.

Coffey Mining provided a view of a possible plant configuration for Scenarios 1 and 2. This comprised a crusher section similar to the existing plant, but suitably sized to increased production, with Coarse and Small Lump products classified and stacked for shipment and sale if its grades are marketable. The -6.35mm fraction is then fed into a concentrator section. The -6,35mm+1mm fraction could be concentrated on jigs or magnetic separators (low or medium intensity); the -1mm+100mesh fraction could be concentrated on spirals or on magnetic separators (low, medium or high intensity); the -100mesh fraction could be dewatered and deslimed, pre-concentrated on high intensity magnetic separators and concentrated by flotation (conventional or columns cells). Preference in the process design should be given to alternatives that maximise Fe recovery and minimise water consumption.

Gravity and magnetic tailings may contain significant iron or the pre-concentrates may contain significant SiO<sub>2</sub> or other contaminants; milling in a ball mill will liberate the gangue in a closed

cyclone circuit. The milled product would then be pumped back to the concentration circuit and re-concentrated to obtain the final Pellet Feed product.

Similarly the tailings from the flotation circuit containing recoverable grades of Fe should be re-milled in the ball mill to liberate the gangue material and then be re-concentrated in the flotation column

Final tailings of gravity separators, magnetic separators and flotation cells, which contain high silica and low Fe grades, will be dewatered in dewatering screens or vacuum filters and stacked in conical tailings piles, then loaded on trucks and transported to tailings disposal piles. If there is market demand this material may be sold as sand for civil construction.

Fine tailings (-600mesh) will be taken to the “slurry” paste thickener and settled until they reach 65% to 70% solids in the underflow, and then pumped into dewatering and drying ponds. Dried fine tailings will be loaded and transported to tailings disposal piles.

More efficient paste disposal methods should be studied and developed in order to permit the paste to be pumped and disposed directly to stockpiles. The water from all dewatering equipment will be recovered and recirculated.

The Pellet Feed product of the flotation phases will be filtered and transported via belt conveyor to a stockpile for sale.

Coffey Mining also modelled an operation running continuously for a total 7000hr per annum with an assumed 6Mtpa or 10Mtpa ROM feed.

The basic circuit described will produce the planned sized products in the proportions:

- Coarse lump      4%
- Small lump      3%
- Sinter Feed      25%
- Pellet Feed      19%
- Tailings      49%

The plant should be located to the northwest of the proposed final pit limit to minimise the average haulage distance. It could be planned to locate the plant in areas mined out in the early production years. This will require mineralisation evaluation and mining in a timely manner to ensure the area becomes available.

Tailings disposal ponds and the paste thickener should be located to take advantage of gravity for pipeline feed downhill from the plant. Tailings disposal piles could be located within mined out portions of the pit. The paste thickener would promote the maximum recovery and

recycling of process water as well as reduce the area required by the tailings disposal and could still eliminate the need for a tailings dam.

Current installed power capacity for the existing plant and related facilities is 300kW. This will have to increase to 10MW and 15MW respectively for Scenarios 1 and 2. CEMIG, the local power utility, will provide this interconnection to the grid.

It was estimated an operational labour force of 100 will be needed for the initial production, increasing to between 250 and 400 for Scenario 1, and between 400 and 600 for Scenario 2.

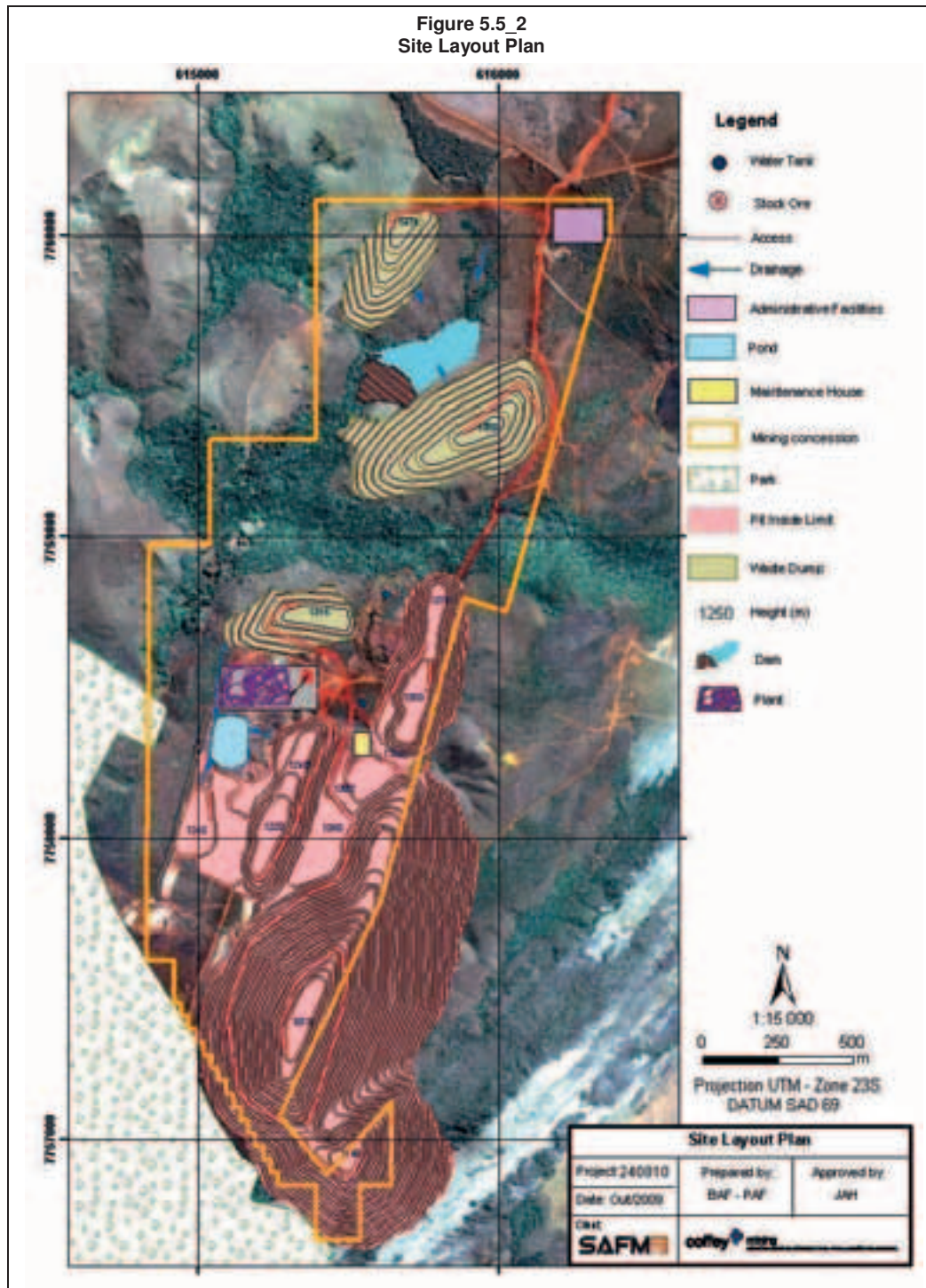
Water consumption for initial production was estimated at 1.2m<sup>3</sup>/t. Over half of this water would be recovered and recycled, with additional recovery from the tailings pulp. It was estimated new water consumption may be 800m<sup>3</sup>/day, dependent on the actual production rate adopted. It was noted that unrecovered tailings pulp water returns to the groundwater system and that the water balance may be close to zero considering the regional hydrological balance.

Implementation of the increased production scenarios will require increased water estimated at 1.4m<sup>3</sup>/t of ROM feed. This would be equivalent to 1,200m<sup>3</sup>/h and 2,000m<sup>3</sup>/h respectively for Scenarios 1 and 2.

Since the remaining water is almost completely recovered and recirculated during beneficiation and concentration stages, process loss is limited to the water within the fines tailings slurry. As with the initial production phase, it can be expected that the water balance will be close to zero considering the regional hydrological balance.

Ponto Verde currently uses groundwater from boreholes into the local aquifer. It is expected that the same water source will be sufficient for future plans and that the near zero water balance will not lead to a depletion of this resource.

Coffey Mining presented a plan for the proposed mining complex which is illustrated in Figure 5.5\_2. In preparing this plan it was necessary to consider the location of existing facilities and pits as well as the proposed ore processing plant, service areas, administrative support, maintenance shops, reject dumps, product dumps, tailings dam, the water dam, access ways and internal roads. Local infrastructure, topography and hydrology, as well as adjacent deposits were considered. The environmental impact is expected to be minimised. Coffey Mining presented a plan for the proposed mining complex which is illustrated in Figure 5.5\_2. In preparing this plan it was necessary to consider the location of existing facilities and pits as well as the proposed ore processing plant, service areas, administrative support, maintenance shops, reject dumps, product dumps, tailings dam, the water dam, access ways and internal roads. Local infrastructure, topography and hydrology, as well as adjacent deposits were considered. The environmental impact is expected to be minimised.

Figure 5.5\_2  
Site Layout Plan

## 5.6 Process Plant Costs

Coffey Mining did not prepare a detailed equipment listing and cost estimate for the process plant plans in November 2009, relying on evaluation of iron ore processing facilities available in the region.

For initial production using the existing plant, no capital expenditure was considered necessary. However it is recognised that some minor modifications may be required or desirable and a small cost may be incurred.

For the first five years, operating cost was estimated at US\$2.3/t (ROM).

For Scenario 1, with a plant feed of 6Mtpa (ROM), the capital expenditure for the plant and process area will be in the order of US\$85M and total local infrastructure of US\$25M.

For Scenario 2, with a plant feed of 10Mtpa (ROM), and using similar projects as a model, capital expenditure for the plant and process area has been estimated at US\$120M; additionally, at least US\$35M will be required for local infrastructure (energy, dams, roads and ramps, etc).

Plant investments, in both Scenarios, will be made over three years and completed by the fifth year of existing plant operation with the intention of the new plant coming online in the sixth year of the project.

For both scenarios preliminary operating cost estimates were about US\$4.80/t (ROM) and US\$9.50/t of product, with mass recovery of the final product (largely Pellet Feed) being around 50.5%.

For both scenarios, the following prices and costs were used:

- Concentrate price: US\$59/t of product;
- Road transport cost: US\$3.5/t of product;
- Rail transport cost: US\$11/t of product;
- Port cost: US\$9.5/t of product.

No investment in railways or ports was considered with use of existing facilities assumed.

## 5.7 Total Project Costs

The preliminary total capital expenditure for Scenario 1 was approximately US\$129M, taking into account the mine, plant and local infrastructure. A further US\$3M was assumed for exploration and evaluation costs. Operating costs would be US\$5.6/t mined plus a provision for G&A.

The preliminary total capital expenditure for Scenario 2 was approximately US\$178M, taking into account the mine, plant and processing area infrastructure. A further US\$3M was assumed for exploration and evaluation costs. Operating costs would be US\$5.6/t mined plus a provision for G&A.

In both cases the major portion of capital expenditure would be disbursed between years three and five of the project in parallel with existing plant operation.

## 5.8 Project Development Strategy and Budget

### 5.8.1 Development Strategy

#### Preliminary Production

It is the intention of RVE to commence production on a small scale utilising the existing machinery and plant. Production for sale to local markets as discussed in Sections 5.8.2 and 5.8.3 below will be possible at a rate of up to 2Mtpa. Minor modifications to improve efficiencies and recoveries could include collectors and piping of undersize to send to a stockpile for concentration and sale as Pellet Feed product, and medium intensity magnetic separators to improve the grade of the Coarse Sinter Feed.

The Canga will provide the initial plant feed to produce Small Lump (-22m+8mm) and Coarse Sinter Feed (-8mm+2mm) products that are immediately saleable. An Exploration Target of between 6Mt and 8Mt at grades of between 43% Fe and 53% Fe (Table 5.2\_1) is immediately available. It is likely that additional tonnage may be identified to help bridge the period until the main Scenario 1 or 2 plans can be brought to account from about year 6.

The Gandarela Itabirite may provide early plant feed but this material has the highest Mn content at about 4.5%. Plant operations may need careful planning to maintain the product quality required for sale into the markets.

RVE has provided their estimate of expected product quality and price (discussed in Section 5.8.2). In summary this will be:

|                                |             |                                |          |
|--------------------------------|-------------|--------------------------------|----------|
| Small Lump                     | US\$75.58/t | Sinter Feed                    | US\$22/t |
| Fe                             | 62%         | Fe                             | 62%      |
| SiO <sub>2</sub>               | 3%          | SiO <sub>2</sub>               | 8%       |
| Al <sub>2</sub> O <sub>3</sub> | 3%          | Al <sub>2</sub> O <sub>3</sub> | 0.8%     |
| P                              | 0.11%       | P                              | 0.045%   |
|                                |             | Mn                             | 0.6%     |
|                                |             | H <sub>2</sub> O               | 9%       |
|                                |             | <0.15mm                        | 20%      |
|                                |             | +1mm                           | 55%      |
|                                |             | +6.3mm                         | 7.5%     |

### Increased Production Scenarios

#### *Mining Operations*

The mining studies discussed in Section 5.3 and 5.4 have provided a basis for planning production. Scenarios 1 and 2 have examined ROM production of 6Mtpa and 10Mtpa.

Achieving these options is critically dependent on the outcome of planned resource evaluation drilling that will improve the confidence of the Exploration Target tonnage for the Cauê Itabirite mineralisation, and may lead to the declaration of a JORC compliant mineral resource. RVE has assumed this assumption will be achieved and the development strategy and budget are taking this into account.

Additional engineering and pre-feasibility studies are planned by RVE. These studies will lead to the declaration of JORC complaint Ore Reserves if the resource evaluation objectives are achieved.

#### *Process Plant Proposals*

Planned engineering and pre-feasibility studies will examine in more detail than the Process Plant Studies discussed in Section 5.5 and 5.6. That conceptual study has outlined the opportunity to produce Pellet Feed product only equating to over 40% of ROM feed; depending on the process adopted about 3Mtpa or 5Mtpa Pellet Feed product may be achieved from either Scenarios 1 or 2 respectively.

Ore characterisation and process development will be necessary to consolidate the process flow before beginning the plant project. After the process flow is determined, engineering and pre-feasibility studies will be planned by RVE. These studies will lead to the declaration of JORC complaint Ore Reserves if the resource evaluation objectives are achieved. The process plant studies will be an essential part of the study. As discussed in Sections 5.8.2 and 5.8.3 below, product quality and marketing will be critical aspects of a pre-feasibility study and will iterate back into the determination of the optimum process flow and design.

## **5.8.2 Product Quality and Marketing**

### World Markets Summary

SAFM Brazil comments that worldwide consumption of finished steel in 2008 amounted to 1.05Bt, with China now accounting for one third of the total and the main driver behind production growth.

Global iron ore production totalled 1.7Bt in 2008, of which 882Mt was internationally traded. Australia was the leading exporting country (300Mt in 2008), closely followed by Brazil (282Mt).

The increasing importance of China was demonstrated in December 2006, when for the first time a Chinese company (Bao Steel) set the annual pricing benchmark. In 1990 China accounted for 3.5% (14.3Mt) of seaborne iron ore trade. By 2008 it represented 50% of the

seaborne market with 444Mt. China is now the world's largest producer of steel, with 36% of global capacity and some 47% of output.

Since the financial crisis hit in 2008, Chinese steel production has furthermore recovered close to capacity levels as other parts of the world (ie. Europe and the US) lag well behind in the recovery. As we move away from recession these numbers tend to adjust but it is assumed that China will take a further step in increasing its share of the global seaborne market.

#### Trends in Iron Ore

**Consolidation:** The iron ore market has been in continuous consolidation since the 1970s, with the three major producers now accounting for 35% of global production, versus 11% in 1976.

**Vertical Integration:** The major steel producers, armed with strong balance sheets, are increasingly moving towards acquiring in-house sources of production. Mittal Steel for example now has a strong holding in the iron ore sector, including in Brazil, while Brazil has for example seen the purchase of J Mendes by steel producer USIMINAS. More steel producers are likely to follow suit.

#### Future Supply and Demand Outlook

According to International Iron and Steel Institute forecasts, 2010 global world steel demand will recover by 9.2% to 1.2Bt, and back to 2008 levels. The iron ore project pipeline, mainly in Australia, amounts to some amounts to 430Mt according to UNCTAD over the period 2009 to 2011, of which 75% falls into the "certain category". Australia accounts for some three quarters of this while only 7% is in Brazil.

Based upon past experience and bottlenecks due to a shortage of equipment and experienced staff and a drastic slowdown in the market, projects will be pushed back beyond 2011. Projects in Brazil have also seen their start up dates pushed back due to delays in securing environmental licences: for example MMX's (now Anglo) project in Minas Rio where construction work on the pipeline has not started and the originally scheduled start up date has been pushed back from 2009 to a date yet to be confirmed. Vale's Brucutu and Serra Sul projects are also delayed for similar reasons.

#### Brazilian Steel and Iron Ore Markets

##### *Iron Ore*

Brazil is the second largest producer worldwide of iron ore, with output of 370Mt in 2008, of which 282Mt was exported and 88Mt consumed domestically.

Iron ore mining is concentrated in two districts in Brazil: the Carajas in the north and in a prolific iron producing sector known as the Iron Quadrilateral in Minas Gerais State further to the south, in which SAFM Brazil's project is situated.

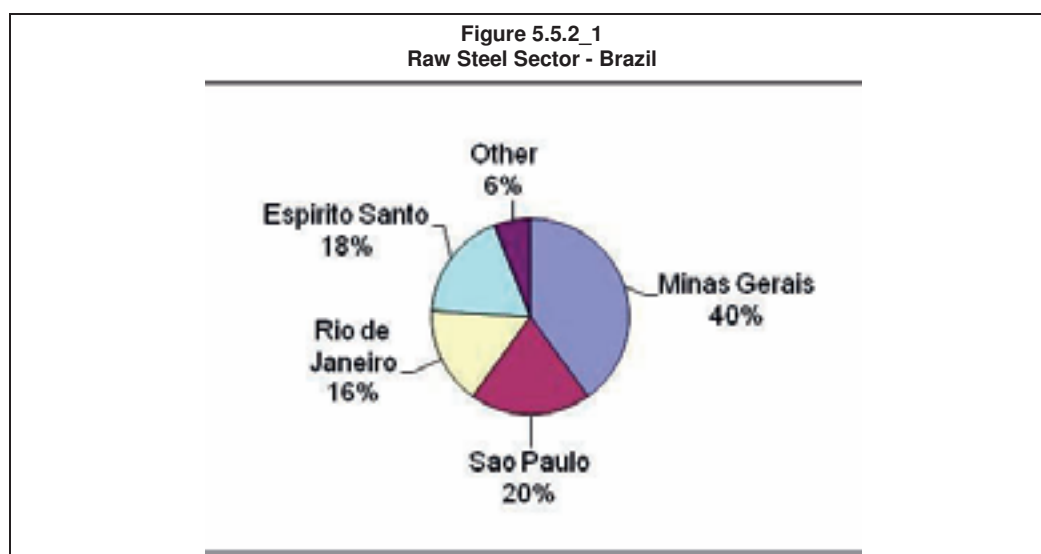
Output is highly consolidated with the Vale group accounting for some 84% of Brazilian iron ore exports. The next largest producer is integrated steel group Companhia Siderúrgica Nacional (CSN) with 7% with the remaining 10% coming from a variety of steel producers and independent players.

The iron ore sector is currently witnessing significant capital investment.

### *Steel*

The Brazilian steel sector has seen strong inward capital investment in recent years, with a further 3Mt of capacity completed by end-2008. Although some of these projects were postponed due to the financial crisis, the Brazilian steel sector shows recovery. Out of 14 blast furnaces shut down for maintenance during the crisis, only 2 are still not operating. The Brazilian steel sector is currently working at 85% of potential capacity from a 50% at the nadir of the crisis.

By state, the Brazilian raw steel sector is segregated as illustrated in Figure 5.5.2\_1.



### SAFM Brazil's Markets

#### *Volumes*

Steel production within Minas Gerais State and primarily within a 250km radius of the mine totals some 12Mtpa to 14Mtpa.

SAFM Brazil is therefore geographically well placed to access a number of steel producers, primarily within Minas Gerais State but also beyond, as summarised below:

#### *Potential Customers*

#### Gerdau Açominas

Located some 50km from SAFM Brazil, and operating two iron ore mines of their own with expected capacity of 4.5Mtpa by 2010, Gerdau is nonetheless expected to purchase some 3Mtpa of iron ore from outside suppliers. The company ramped up its capacity from 1.5Mtpa to 3Mtpa of steel early in 2008 and launched phase 2 of its expansion programme, increasing capacity to 6.5Mtpa by 2011, although the project has been delayed due to the financial crisis.

#### Arcelor Mittal João Monlevade (AM)

AM are undergoing an expansion programme, with a new blast furnace and sintering plant in order to double capacity to 2.4Mtpa of steel by 2012. It is located some 150km from SAFM Brazil. Although also vertically integrated, they nonetheless use purchased iron ore for blending. Although there may be delays to this expansion programme, AM has announced it will maintain its investments in the Brazilian steel sector, with cancelations of investments in other parts of the world instead.

#### Arcelor Mittal Juiz de Fora

The semi-integrated Juiz de Fora operations towards Rio are accessed by the MRS Logística (MRS) railway, to which AM have access rights. There is a loading terminal onto the MRS railway some 50km from the mine. The Juiz de Fora plant is a consumer of iron ore only as an additive to scrap and pig iron purchased, however they should soon launch an expansion programme with two pig iron furnaces with approximately 1Mtpa capacity.

#### Usiminas / Cosipa

Usiminas / Cosipa are expected to be consuming 22Mtpa of ore from 2013 as well as building an export position through their participation in the MRS network. Usiminas / Cosipa group produces 8.5Mtpa of steel and has an expansion programme for an additional 5Mtpa of steel. From a US\$14.1B investment, US\$3.5B will be allocated to the acquisition, and expansion of the pellet plant of the J. Mendes mine project which will ramp up production to 29Mtpa by 2013. SAFM Brazil will target the group as consumers of Ponto Verde product and from there on as customer for iron ores to be exported by the group.

#### Pig Iron Producers

Located essentially in the vicinity of the cities Sete Lagoas, Divinópolis and Itauna, some 50km to 150km from Belo Horizonte and with production capacity of 6.6Mtpa, the pig iron producers will be targeted as customers for SAFM Brazil's Small Lump product, which may comprise 60% of output in phase one of the project and 15% to 20% in phase 2, depending on plant design options.

#### Iron Ore Exporters

The export markets also offer potential, with SAFM Brazil having received approaches from Vale and CSN, both looking to purchase ore for export. CSN is active, purchasing ore from smaller producers in order to export through its subsidiary Nacional Minérios S/A (NAMISA). Vale is also currently in the market, purchasing 15Mt of iron ore. SAFM Brazil will also enter the bidding strategy for third party ports in Brazil. Currently CSN and Vale promote tenders for its Sepetiba Bay ports.

#### Export Infrastructure

The route for SAFM Brazil's exports is using the MRS railway; this link is privately owned and open to any user. The nearest rail loading head is some 25km from SAFM Brazil's Ponto Verde site.

The MRS corridor has partial restrictions under Brazilian concession regulations that stipulate 15% of concessionaire port capacity must to be sold to third parties.

In this context there are the tenders in Vale's Companhia Portuário Boiá de Sepetiba (CPBS) Terminal and CSN's Terminal de Carvão da CSN (Tecar), both in Sepetiba Bay

In Q1 2009, new concessions were awarded in Sepetiba and are now under environmental license evaluation. Bidders (winners) are MMX, Usiminas, Petrobras (the latter will have a terminal for bulk cargo which will allow iron ore loading). These new ports are also enforced by regulation to sell part of their capacity to third parties. Furthermore MMX, which now loads at CSN terminal, will liberate capacity at CSN and at the same time will open another terminal of its own.

There is also now an association of small producers who, with the support of the Minas Gerais State government, is petitioning to lower MRS's costs and open capacity for others at these ports. Although there are opportunities now, and costs are high (MRS at Serra Azul costs US\$22/t to US\$24/t), it may only cost SAFM Brazil US\$16/t to US\$18/t if the petitioning is successful). Port operations are now sold by Vale CPBS at US\$12/t and CSN US\$11.70/t, while their costs are about US\$2.50/t at Sepetiba)

In the near future, MMX, USIMINAS and other bulk operations will be operating in Sepetiba opening further opportunities for SAFM Brazil to enter the export markets.

Prices (ex works and excluding ICMS taxes)

Small Lump (15% – 20% of SAFM Brazil's expected output in Phase 2)

- 62% Fe grade product currently selling for US\$75/t from US\$35/t in 2008.

Sinter and Pellet Feed Concentrates (70% – 80% of SAFM Brazil's expected output in Phase 2)

- 65% Fe grade expected to be produced by the mine currently sells for US\$55.90/t from the previous US\$30/t in 2008. Price reference is of mine gate sales from Itaminas and Pau Branco to local customers (CSN, Vale, Steel Producers).

The US\$53.35/t average price for Phase 1 is thus in line with pricing levels currently practised in the market as follows:

- Coarse Sinter Feed      US\$22.00/t      40% of production      (US\$9/t in 2009)
- Small Lump                      US\$75.580/t      60% of production.      (US\$30/t in 2009)

Eventually this pricing will be revised to reflect customer rates for Sinter Feed and Small Lumps and according to benchmark price changes, on a quarterly basis rather than annually.

### 5.8.3 Logistics and Transport

#### Phase 1 – Sales to Domestic Market

For its Phase 1 of operations, SAFM Brazil will sell its products (Coarse Sinter Feed and Small Lumps) to the domestic market. These products are delivered at mine gate and transported by trucks hauling from 27t to 29t each load.

For Coarse Sinter Feed the customers are Vale, CSN/NAMISA and Gerdau Açominas with distances from Ponto Verde as shown in Table 5.8.3\_1.

| <b>Table 5.8.3_1</b><br><b>Ponto Verde Project</b><br><b>Coarse Sinter Feed – Customer distances</b> |                 |
|------------------------------------------------------------------------------------------------------|-----------------|
| <b>Customer Site</b>                                                                                 | <b>Distance</b> |
| Vale – Fábrica Mine                                                                                  | 36 km           |
| CSN Casa de Pedra                                                                                    | 42.7 km         |
| CSN Namisa                                                                                           | 39.6 km         |
| Gerdau Açominas                                                                                      | 60 km           |

For Small Lumps the customers are pig iron producers in the Sete Lagoas region (Citygusa, Metalsete, Siderlagos, Sicafe, etc.) and VDL in Itabirito (closest unit to SAFM Brazil with a distance advantage over competitors) with distances from Ponto Verde as shown in Table 5.8.3\_2.

| Table 5.8.3_2<br>Ponto Verde Project<br>Small Lumps – Customer distances |                |
|--------------------------------------------------------------------------|----------------|
| Customer Site                                                            | Distance       |
| VDL Siderurgia                                                           | 19.5km         |
| Sete Lagoas region                                                       | 102km to 131km |
| Gerdau Barão de Cocais                                                   | 137km          |

SAFM Brazil will not consider the pig iron producers in Itauna and Divinópolis region as there is a distance disadvantage in relation to the Small Lump producers of Serra Azul in the western portion of the Iron Quadrilateral.

#### PHASE II – Sales to Domestic Market

The customer basis in the domestic market for the second phase of SAFM Brazil's project will be the same as for phase one.

#### PHASE II – Sales to International Market

Although there are no agreements between SAFM Brazil and logistics operators to the international market, SAFM Brazil has an advantage in location compared to the other independent iron ore producers in Minas Gerais as it is situated close to highway BR 040 and near the MRS rail lines to the ports of Rio in Sepetiba.

The State of Minas Gerais has two rail corridors hauling iron to ports:

- Vitória Minas to the east, 100% owned by Vale, and
- MRS to the southeast, an independent company.

In the east corridor Vale has third party contracts to transport soybeans, wheat, steel, containers and other cargoes in compliance with its concession commitments and yet excluding competition from other iron ore producers. At the Sepetiba based ports competition and technical constraints ensure that Vale cannot pre-empt competitor iron ore exports. The legal requirements for third party capacity at Sepetiba Bay iron ore Ports is an export opportunity to third parties, including SAFM Brazil.

MRS is a private company with concessions for rail lines and although Vale (40% shareholder, 20% voting power), CSN (20% voting power) and USIMINAS (20% voting power) have stakeholder interests, it has independent administration and is open to any customer.

SAFM Brazil's export strategy lies with the expansions of Sepetiba Bay Ports. Brazilian Logistics regulations (ports) require that concessions contract a regulated proportion of the capacity to third parties.

2009 iron ore shipment tenders by Vale and CSN show that only about 5Mt of capacity was made available to third parties at Sepetiba.

SAFM Brazil's market strategy lies in the expansions of the port availability illustrated in Figure 5.5.3\_3.

| <b>Table 5.5.3_3</b><br><b>Ponto Verde Project</b><br><b>Third Parties Future Capacity of Sepetiba Bay Ports</b> |          |          |          |                 |                           |           |
|------------------------------------------------------------------------------------------------------------------|----------|----------|----------|-----------------|---------------------------|-----------|
| Concessionaire                                                                                                   | Operator | Start Up | Capacity | Third Parties   | Third Party               | Expansion |
| Existing Operations                                                                                              |          |          |          |                 |                           |           |
| Vale                                                                                                             | CPBS     | 2009     | 15Mtpa   | 2.9Mtpa         | Arcelor Mittal & Minerita | None      |
| CSN                                                                                                              | TECAR    | 2010     | 25Mtpa   | 2Mtpa           | MMX                       | 70Mtpa    |
| Future Operations                                                                                                |          |          |          |                 |                           |           |
| MMX                                                                                                              | LLX      | 2013     | 50Mtpa   | To be regulated |                           | 50Mtpa    |
| USIMINAS                                                                                                         | INGÁ     |          | 16.7Mtpa | To be regulated |                           | 25Mtpa    |

Current third party production to fill up the availability with export quality products is less than 10Mtpa. Mineirita, MBL, Ferro Mais, Arcelor Mittal (currently contracted with Vale's port at Sepetiba) will be joined by MMX's Bom Sucesso mine recently acquired from LGA Mineracao e Siderurgia to tender for a fourth port concession at Sepetiba. MMX may relinquish its tender to CSN thus releasing capacity for new entrants. Other new projects are based on pipeline developments that are not part of the Sepetiba Bay developments. SAFM will negotiate a foothold in this excess capacity.

#### 5.8.4 Environmental Permitting

When SAFM Holdings acquired the Project in 2008 the company's due diligence recognised certain serious environmental issues originating in 2003 under the ownership at that date. SAFM Brazil approached the Public Attorney's Office to negotiate a process of rectification and remediation leading to re-instatement.

Negotiation from October 2008 with the State Public Attorney and the State Environment Offices (SEMAD, IEF) resulted in the signing of a Legal Agreement between SAFM Brazil and these State bodies on 28 September 2009. The local Judge in Itabirito also signed the agreement.

Under this agreement, SAFM Brazil undertook to make environmental rectification and remediation, as well as a commitment to pay compensation. SRK Brazil assisted SAFM Brazil in the preparation of several required documents.

- Environmental Impact Assessment (EIA): Estudo de Impacto Ambiental

- Environmental Impact Report (RIMA): Relatório de Impacto Ambiental
- Environmental Control Plan (PCA): Plano de Controle Ambiental
- Conceptual closure plan
- Social-environmental proposals

SAFM Brazil has agreed to participate in local social-environmental initiatives and activities.

SAFM Brazil has completed all the required rectification and remediation, except for three issues relating to the Aredes Park which is yet to be created by the environmental authorities. When the park is officially opened, SAFM Brazil will donate fire extinguisher equipment kits, hire an employee to monitor the park for 5 years and fence the park. The fencing will require compliance with a project scope still to be presented by the State Forestry Department (IEF).

As a result of this agreement and SAFM Brazil's implementation of the terms, the company became eligible to start the environmental licensing procedures. A series of studies of operations and deforestation (PRAD, EIA / RIMA) were delivered to the State Environmental Offices. This office has reviewed the reports and made a number of visits and inspections. The remedial work has been accepted as satisfactory and a Report (Parecer Unico) has been issued by the State Licensing Environmental Office (SUPRAM).

The SAFM Brazil licensing request was voted in the State Environmental Licensing Committee (COPAM) in the meeting of 28 August, 2010 and approved for operations. The requested licenses (LP and LI) were issued on 30 August, 2010.

Coffey Mining has examined all documents provided by SAFM Brazil in support of the agreement and remediation process, and it appears that all the legal requirements have been fulfilled and existing disputes settled within the timeframe established under the agreement. The issue of the LP and LI confirms this process is now complete and SAFM Brazil has provided copy of its application for the Operation License (LO) which is expected to be issued by the end of September 2010.

#### **5.8.5 Occupational Health and Safety**

Coffey Mining has reviewed SAFM Brazil's report on Occupational Health and Safety (OH&S). This report emphasises the importance of OH&S in industrial operations with mining assigned a level four risk factor.

The report shows SAFM Brazil's application of the Regulatory Standard No. 22 (occupational health and safety in mining); this standard provides all the legal standards in the promotion and preservation of the health of workers exposed to mining activities.

For this Project, SAFM Brazil has addressed four major programmes and plans:

- Occupational Health Medical Prevention Plan (PCMSO);

- Risk Management Plans (PGR);
- Emergency Action Plan;
- Vehicular Transit Plan.

#### Occupational Health Medical Prevention Plan

SAFM Brazil will implement its PCMSO in line with NR7 of the Ministry of Occupational Health. The main objective is the promotion and preservation of health in the workforce through early prevention, tracking and diagnosis. This will be achieved through identification of risk factors, training, collaboration with the Internal Commission on Accident Prevention for Mining (CIPAMIN) and working in compliance with the Environmental Risk Prevention Program (PPRA) and the Risk Management Plan (PGR)

This program contains the following directives:

- Medical Exams
- Health Surveillance
- Medical Response and Prevention of Workplace Accidents
- Emergency Medical Response
- Educational First Aid Programs
- Immunization
- Health Surveillance
- Epidemiological Absenteeism Prevention
- Medical Briefs and Medical Recommendations
- Environmental Risk Analysis

#### Risk Management Plans

SAFM Brazil will implement its RMP in line with NR9, the Environmental Risk Prevention Programme. The plan objective is the prevention through anticipation, recognition, evaluation and control of environmental risks that affect or can directly affect the worker. The RMP will be followed by all company departments and overseen by the employer. Every employee is expected to participate.

The RMP also describes the strategies that are mapped through the inherent dangers and risks. Occupational risks are physical, chemical and biological and are qualitative or quantitative. Preventive measures are outlined.

The plan also includes reporting relations with CIPAMIN.

#### Emergency Action Plan

Permanent emergency response teams will comprise six employees. They will receive periodic training that will include simulations based on standard operating procedures with mine personnel at least once a year. The results of the training and simulations will be reported back to the mine personnel clearly and objectively as a fundamental part of the awareness and preparedness programme.

Employee feedback will be encouraged in line with NR05 (observation and reporting of unsafe working conditions) and NR06 (personal protection equipment).

#### Vehicular Transit Plan

This vehicular transit plan looks to establish rules for right-of-way in traffic and minimum distances between machines, equipment, and auxiliary vehicles while establishing safe speed limits adapted to the specific conditions of each stretch of roadway on the mine.

Brazil-trained drivers and machine operators will receive supplementary training both in operation and “the rule of the road” as it applies to the mine property

- Training Program for Machine Operators
- Guidelines for Vehicular Right-of-Way
- Traffic Signs for Thoroughfares
- Minimum Distances Between Machines, Equipment, and Vehicles
- Maintenance of Traffic Lanes
- Use of Personal Protective Equipment

In conclusion, Coffey Mining is of the opinion that SAFM Brazil is not only aligned with the Standards discussed above, but is also aligned with the legal requirements of the Brazilian Ministry of Labour, the Health Ministry and the fire department.

### **5.8.6 Exploration and Development Budget**

An exploration and development budget for the Ponto Verde Project has been provided by RVE covering the first two year period following listing. The total proposed budget is A\$15M and the budget detail is shown in Table 5.8.6\_1. Coffey Mining consider that the proposed expenditure is appropriate given the prospectivity and potential of the Project and is sufficient to satisfy the statutory expenditure requirements for the licenses. The total proposed expenditure is considered by Coffey Mining to be consistent with achieving a Pre-feasibility Study level of detail depending on the outcomes of the programme.

| <b>Table 5.8.6_1</b><br><b>Ponto Verde Project</b><br><b>Ponto Verde Project Budget</b> |                       |                       |                      |
|-----------------------------------------------------------------------------------------|-----------------------|-----------------------|----------------------|
| <b>Activity</b>                                                                         | <b>Year 1<br/>A\$</b> | <b>Year 2<br/>A\$</b> | <b>Total<br/>A\$</b> |
| Ponto Verde – JORC Drill Programme                                                      | 2,500,000             |                       | 2,500,000            |
| Upgrade to existing plant infrastructure                                                | 2,000,000             |                       | 2,000,000            |
| Ongoing Project Evaluation                                                              |                       | 2,500,000             | 2,500,000            |
| Working Capital and Feasibility Studies                                                 | 3,000,000             | 4,050,000             | 7,050,000            |
| Expenses of the Offer                                                                   | 950,000               |                       | 950,000              |
| <b>APPLICATION OF FUNDS</b>                                                             | <b>8,450,000</b>      | <b>6,550,000</b>      | <b>15,000,000</b>    |

## 5.9 Risk Analysis

The risk analysis follows Guidance Note 7 of the Stock Exchange of Hong Kong, which is seen as compatible with Australian common practise.

Risk has been classified from minor to major as follows:

- **Major Risk:** the factor poses an immediate danger of a failure which, if uncorrected, will have a material effect (>15% to 20%) on the project cash flow and performance and could potentially lead to project failure.
- **Moderate Risk:** the factor, if uncorrected, could have a significant effect (10% to 15%) on the project cash flow and performance unless mitigated by some corrective action.
- **Minor Risk:** the factor, if uncorrected, will have little or no effect (<10%) on project cash flow and performance.

The likelihood of a risk event occurring within a nominal 7 year time frame has been considered as:

- Likely: will probably occur
- Possible: may occur
- Unlikely: unlikely to occur

The degree or consequence of a risk and it's likelihood are combined into an overall risk assessment as per Table 5.9\_1.

| Table 5.9_1<br>Overall Risk Assessment |                     |          |        |
|----------------------------------------|---------------------|----------|--------|
| Likelihood of Risk<br>(within 7 years) | Consequence of Risk |          |        |
|                                        | Minor               | Moderate | Major  |
| Likely                                 | Medium              | High     | High   |
| Possible                               | Low                 | Medium   | High   |
| Unlikely                               | Low                 | Low      | Medium |

### 5.9.1 Risks Summary

A summary of the main Project risks considered is included in Table 5.9.1\_1 and the discussion on these risks included in the following subject sub-sections.

| Table 5.9.1_1<br>Project Risk Assessment Table Before Mitigation |                                                        |            |                    |             |
|------------------------------------------------------------------|--------------------------------------------------------|------------|--------------------|-------------|
| Hazard / Risk Issue                                              |                                                        | Likelihood | Consequence Rating | Risk        |
| <b>Geology</b>                                                   | Local geological knowledge                             | Unlikely   | Minor              | Low         |
|                                                                  | Iron mineralisation discontinuity                      | Possible   | Major              | <b>High</b> |
|                                                                  | Lack of significant resource                           | Likely     | Major              | <b>High</b> |
|                                                                  | Geological complexity, mining scale                    | Possible   | Moderate           | Medium      |
|                                                                  | Deleterious elements (Mn)                              | Possible   | Moderate           | Medium      |
| <b>Mining</b>                                                    | Absence of established reserves                        | Possible   | Major              | <b>High</b> |
|                                                                  | Adverse ground conditions/stability                    | Possible   | Moderate           | Medium      |
|                                                                  | Equipment selection inadequate                         | Unlikely   | Minor              | Low         |
|                                                                  | Poor mine planning or scheduling                       | Possible   | Moderate           | Medium      |
|                                                                  | Significant production shortfalls                      | Unlikely   | Major              | Medium      |
|                                                                  | License for neighbour area                             | Possible   | Moderate           | Medium      |
|                                                                  | Neighbour non-acceptance in sharing waste removal cost | Possible   | Moderate           | Medium      |
| <b>Processing</b>                                                | Lower Fe recovery                                      | Unlikely   | Moderate           | Low         |
|                                                                  | Lower plant production levels                          | Unlikely   | Minor              | Low         |
|                                                                  | Process reliability                                    | Unlikely   | Major              | Medium      |
|                                                                  | Quality of product                                     | Possible   | Moderate           | Medium      |
|                                                                  | Tailings handling problems                             | Possible   | Moderate           | Medium      |
| <b>Services</b>                                                  | Power capacity limit                                   | Unlikely   | Moderate           | Low         |
|                                                                  | Water availability limit                               | Unlikely   | Major              | Medium      |
|                                                                  | Lack of skilled personnel                              | Possible   | Moderate           | Medium      |
| <b>Environmental</b>                                             | Regulatory Consent/Variation Delays                    | Possible   | Moderate           | Medium      |
|                                                                  | Mismanagement of License's maintenance                 | Unlikely   | Major              | Medium      |
| <b>Capital and Operating Costs</b>                               | Capital Cost Increases – Start-Up                      | Likely     | Moderate           | <b>High</b> |
|                                                                  | Capital Costs - Ongoing                                | Unlikely   | Moderate           | Low         |
|                                                                  | Operating Costs Underestimated                         | Possible   | Moderate           | Medium      |
| <b>Logistics &amp; Transport</b>                                 | Road transport for local sales                         | Unlikely   | Moderate           | Low         |
|                                                                  | Rail transport for export sales                        | Possible   | Major              | <b>High</b> |
| <b>Product Sales</b>                                             | Low product price                                      | Possible   | Major              | <b>High</b> |
|                                                                  | Unable to sell all production                          | Possible   | Moderate           | Medium      |

### 5.9.2 Geology and Mineralisation

- The geology of the Quadrilátero Ferrífero is well known through comprehensive academic and mining studies over many years.
- Regional knowledge of the Banded Iron Formations suggests some discontinuity of mineralisation is possible but at the local scale the current information does not indicate this possibility and the planned drilling programme will eliminate this risk.
- Although a geological model has been prepared and Brazil-compliant estimates made, there is currently only a JORC compliant 'Exploration Target'. The planned resource evaluation drilling programme is anticipated to provide the quality of data required to estimate potential JORC compliant resources.
- Geological complexity during mining, at a bench level, would increase costs and/or reduce the ore quality to the plant. Greater density of data in selected areas will improve confidence in this issue.
- Deleterious elements have not been studied in detail at this time. Further analytical and testwork will mitigate this potential issue for manganese.

### 5.9.3 Mining

- The current absence of JORC compliant Ore Reserves is a risk consequent on the present status of JORC compliant geological knowledge.
- Poor ground conditions would mean flatter pit slopes although flat slopes have already been assumed in the Scoping Study. Geotechnical studies will mitigate the risk.
- Incorrect mining equipment selection would reduce productivity and availability and hence increase costs. Selecting proven and well supported equipment will mitigate the risk.
- Poor mine planning and / or production scheduling is unlikely for these large deposits and long mine life but needs early focus.
- Significant production shortfalls, for any reason, are unlikely due to large pits, multiple fleets and alternative mining areas being available.
- A license from DNPM will be required to mine across the property boundary into neighbouring ground. Early application and negotiation must be planned to avoid conflict with mine scheduling.
- Neighbour property owner non-acceptance in sharing waste removal costs may be unavoidable but meeting and discussion with the neighbour must be arranged at any early stage.

#### 5.9.4 Processing

- Low Fe recovery can be mitigated by enough suitable testwork of representative samples during the PFS and later work. Current testwork is insufficient to give confidence in recovery but planned studies will mitigate this risk.
- Lower plant throughput will directly affect concentrate production and hence revenue. Adequate testwork, engineering design and plant equipment selection will mitigate this risk.
- Poor plant reliability can be mitigated by adequate design and ongoing maintenance, as well as having sufficient site concentrate storage to minimise impacts on the sales pipeline.
- Quality of concentrate product is currently not known with confidence; more testwork is required.
- Ore variability and tailings characterisation and variability testwork is still to be done. Adequate design and engineering for this major area to be done in study work.

#### 5.9.5 Services

- It is not yet known with confidence what power demands are expected, nor the detail of available power supply. Further study and negotiations with suppliers must be part of the next stage of study.
- Water demand is highly dependent on what can be recycled and reused as well as securing initial groundwater supplies. More study is required.
- A lack of skilled personnel can be mitigated by early and comprehensive training of the local workforce and efforts to retain skilled people during operations.

#### 5.9.6 Environmental

- Delays in gaining environmental approvals and licenses or onerous permit conditions could delay the project and increase both capital and operating costs.
- Mismanagement of Licenses maintenance should be avoided, learning from past experience on this Project.

#### 5.9.7 Capital and Operating Costs

- Insufficient work has been completed yet to have confidence in either start-up capital or operating costs. The next level of study and engineering will reduce this uncertainty.
- The impact of the general economy and demand for services, or strengthening of R\$ could also significantly increase ongoing capital and operating costs.
- Any underestimate of operating costs will impact the short and long term viability of the project, but can be minimised through thorough evaluation during feasibility study.

#### 5.9.8 Logistics and Transport

- Road transport for local sales is a small risk that can be mitigated through adequate planning.
- Rail transport for export sales is a major risk that will only be eliminated through negotiation and contract during feasibility study.

#### 5.9.9 Product Quality and Marketing

- A detailed market study is yet to be done although current product prices are higher than assumed by Coffey Mining in 2009. This will be an essential aspect of feasibility study.
- Price and quantity of sales can be set with negotiation of long term supply agreements.

#### 5.9.10 High Risk Items

A preliminary risk analysis has identified the following high risk items:

- Continuity of iron ore mineralisation and continuity of grade
- Absence of JORC compliant Resources
- Absence of JORC compliant Reserves
- Capital costs and Operating costs
- Transport of export product
- Price of concentrate product

Current or planned additional resource evaluation drilling, more detailed project engineering and pre-feasibility studies, and marketing agreements will mitigate all these items.

For many of the risks above there are certainly opportunities to not only mitigate or greatly reduce the risk but to possibly improve project performance and viability above the base case.

At the next study stage of the project the opportunities should be considered along with mitigation of risks. It is premature to attempt to quantify any opportunities at this stage.

## 6 COFFEY MINING CONCLUSIONS AND RECOMMENDATIONS

The Project has been the subject of a conceptual mining study that has provided the basis for a viable project going forward, subject to several qualifying factors.

The geology is well understood and the mineralisation is similar to, and what is expected in the region. However, the mineralisation cannot be reported as resources at this time. The Exploration Target tonnages and grades will require a work programme that leads to the estimation and declaration of JORC compliant mineral resources.

Conceptual mining studies have demonstrated the viability of a simple open pit mining operation, subject to confirmation of compliant resources and updated more detailed costing.

Plant process studies have applied knowledge and experience from the well established local iron ore mining industry and shown how both short term and medium term iron ore products can be extracted to meet market specifications.

RVE has provided further background on possible project development. In particular product quality and market conditions together with transport scenarios are critical for the expanded production scenarios targeted by the company. Achievement of these targets will require careful negotiation as well as feedback to the technical studies planned to ensure expectations can be met and contracts achieved.

Coffey Mining recommends the following:

- Implement short term production plan to generate cashflow
- Resource evaluation drilling to improve confidence in the existing exploration database and to facilitate the potential estimation and declaration of JORC compliant mineral resources
- Metallurgical testwork to evaluate the various mineralised domains and demonstrate the amenability of the material to achieve the targeted product qualities
- Pre-feasibility studies to complete a comprehensive report for project development of larger scale production

## 7 PRINCIPAL SOURCES OF INFORMATION

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## 8 GLOSSARY OF TECHNICAL TERMS

A list of abbreviations and definitions used in this report is provided in Table 8\_1.

| Table 8_1<br>Abbreviations and Glossary |                                                                                                                                                                                                                                                    |
|-----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Abbreviation                            | Description                                                                                                                                                                                                                                        |
| %                                       | Percent                                                                                                                                                                                                                                            |
| µm                                      | Micron, one-millionth of a metre                                                                                                                                                                                                                   |
| AIIG                                    | Australian Institute of Geoscientists                                                                                                                                                                                                              |
| Al <sub>2</sub> O <sub>3</sub>          | Chemical formula for aluminium oxide.                                                                                                                                                                                                              |
| anticline                               | A fold in rocks in which strata dip in opposite directions away from the central axis.                                                                                                                                                             |
| APEF                                    | Authorisation for Forest Exploration                                                                                                                                                                                                               |
| APP                                     | Permanent Areas of Preservation                                                                                                                                                                                                                    |
| Archean                                 | An era of geological time greater than 2,500 million years before the present.                                                                                                                                                                     |
| ASX                                     | Australian Securities Exchange                                                                                                                                                                                                                     |
| AusIMM                                  | Australian Institute of Mining and Metallurgy                                                                                                                                                                                                      |
| BIF                                     | Banded iron-formation - an iron-rich (+/- 30% Fe) and siliceous (+/- 50% SiO <sub>2</sub> ) sedimentary rock. Host rock for the iron ores                                                                                                          |
| CaO                                     | Calcium oxide                                                                                                                                                                                                                                      |
| CFEM                                    | Financial Compensation for the Exploitation of Mineral Resources                                                                                                                                                                                   |
| Coarse Sinter Feed                      | Crushed and sized iron ore product (-8mm +2mm) 62% Fe, 5% SiO <sub>2</sub> , 0.06% P, 3% LOI.                                                                                                                                                      |
| CONAMA                                  | National Council of the Environment                                                                                                                                                                                                                |
| diamictites                             | poorly or non-sorted conglomerate or breccia supported by a typically argillaceous (clay sized) matrix.                                                                                                                                            |
| diamond drilling                        | Mineral exploration hole completed using a diamond set or diamond impregnated drill bit for retrieving a cylindrical core of rock.                                                                                                                 |
| DNPM                                    | Brazil's National Department of Mineral Production                                                                                                                                                                                                 |
| DTM                                     | Digital terrain model.                                                                                                                                                                                                                             |
| EIA                                     | Environmental Impact Assessment                                                                                                                                                                                                                    |
| Fe                                      | Chemical symbol for iron.                                                                                                                                                                                                                          |
| Ga                                      | Billion years.                                                                                                                                                                                                                                     |
| geophysical survey                      | The exploration of an area in which geophysical properties and relationships unique to the area are mapped by one or more geophysical methods.                                                                                                     |
| goethite                                | A hydrated iron oxide mineral FeO(OH).                                                                                                                                                                                                             |
| hematite                                | An iron oxide mineral Fe <sub>2</sub> O <sub>3</sub> .                                                                                                                                                                                             |
| Indicated Resource                      | That part of a mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence.                                                                   |
| Inferred Resource                       | That part of a mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence, sampling and assumed but not verified geological and/or grade continuity.   |
| iron ore                                | This is generic term used in exploration and mining to describe anomalous concentrations of hematite, goethite and limonite minerals. The term as used does not imply ore and is not associated with Ore Resources as defined by JORC Code (2004). |
| JORC Code                               | The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 edition), as published by the Joint Ore Reserves Committee, as amended                                                                        |

| Abbreviation          | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                       | from time to time.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| K <sub>2</sub> O      | Potassium oxide                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| kg                    | Metric weight, 1,000grams                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| km                    | Kilometre, a standard metric unit measure of distance.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| km <sup>2</sup>       | Square kilometre, a standard metric unit measure of area.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| LI                    | Installation License                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| LO                    | Operation License                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| LOI                   | Loss of Ignition.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| LP                    | Preliminary License                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| m                     | Metre, a standard metric unit measure of distance.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| m                     | meters                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| M                     | million                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Ma                    | Million years                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Measured Resource     | That part of a mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| MgO                   | Magnesium oxide.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Mineral Resource      | A concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge.                                                                                                                                                                                                                                                                              |
| mm                    | millimeters                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Mm <sup>3</sup>       | Million cubic meters (1,000,000)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Mn                    | Chemical symbol for manganese.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Mt                    | Million metric tonnes (1,000,000).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Mtpa                  | million tonnes per annum                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| P                     | Chemical symbol for phosphorous.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Paleoproterozoic      | An era of geological time spanning the period from 2,500 million years to 1,600 million years before present.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| PCA                   | Environmental Control Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Pellet Feed           | Fine iron ore concentrate (-0.15mm +400mesh; 100% <65mesh) >65% Fe, <2.5% SiO <sub>2</sub> , <1% Al <sub>2</sub> O <sub>3</sub> , <0.06% P.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Pre-feasibility Study | A comprehensive study of the viability of a mineral project that has advanced to a stage where the mining method, for underground mining, or the pit configuration, for an open pit, has been established and an effective method of mineral processing has been determined. It includes a financial analysis based on realistically assumed or reasonable assumptions of technical, engineering, legal, operating, economic, social, and environmental factors and the evaluation of other relevant factors which are enough for a Competent Person, acting reasonably, to determine if all or part of the mineral Resource may be classified as a mineral Reserve. |
| QA/QC                 | Quality assurance and quality control.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| R\$                   | Brazilian real, unit of currency                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Reserve               | With regard to minerals, the economically mineable part of a Measured, and/or Indicated Resource, taking into account diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments to a minimum of a Prefeasibility Study must have been carried out. Mineral Reserves are sub-divided in order of increasing confidence into Probable Reserves and Proved Reserves.                                                                                                                                                                                                                                            |
|                       | <i>Note: Although the term mineral Reserve is used it is recognised that the term ore reserve</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

| Abbreviation     | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Resource         | <i>is used in the JORC Code.</i><br>With regard to minerals, a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for their eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured Resources, as defined in the JORC Code.                                                                                               |
| RIMA             | Environmental Impact Report                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| RL               | Reduced Level, height above a given datum, such as mean sea level.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| ROM              | Run-Of-Mine or as-mined material                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| SAFM Brazil      | SAFM Mineração Ltda                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| SAFM Holdings    | South American Ferro Metals Limited                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Scoping Study    | A preliminary evaluation of a mineral project, including an assessment of the economic viability of mineral Resources. Scoping Studies should include forecast production schedules and cost estimates based on data under which the Resources are identified.                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| SG               | Specific Gravity                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| SiO <sub>2</sub> | Chemical formula for silica.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Small Lump       | Crushed and sized iron ore (-22mm +8mm) 61% Fe, ±5.5% SiO <sub>2</sub> , 0.07% P, 3.5% LOI.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| st               | Sort ton, imperial measure of weight equal to 2,000 pounds.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| syncline         | A fold in rocks in which strata dip in opposite directions towards the central axis.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| t                | tonne                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| The Project      | The Ponto Verde Project                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| thrusts          | A reverse fault or shear that has a low angle inclination to the horizontal.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| tpa              | tonnes per annum                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| VALMIN Code      | The VALMIN Code establishes standards of best practice for the technical assessment and valuation of mineral and petroleum assets and securities by geologists involved in the preparation of independent expert's reports. AIG and the Minerals Council of Australia joined with AusIMM in developing a revised version of the code in 2005, the first major revision in 10 years.<br><br>The Australian Institute of Geoscientists supports the VALMIN Code and endorses it as a statement of industry and professional best practice. The VALMIN Code is binding on members of AIG when preparing public independent expert reports as required by the Corporations Act covering mineral and petroleum assets and securities. |

**Malcolm Castle**

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17 September 2010

The Directors  
Riviera Resources Limited  
PO Box 1310  
Subiaco WA 6904

Dear Sirs,

Re:

**INDEPENDENT GEOLOGIST'S REPORT ON  
MINERAL PROPERTIES in NORTHEAST QUEENSLAND**

I have been commissioned by Riviera Resources Limited (ACN 128 806 977) ("Riviera" or the "Company") to provide an independent technical report on the Company's projects in Northeast Queensland ("Report").

**The Properties**

The project includes two Exploration Permits for Minerals, EPM 14588 and EPM 15517. The project Three Sisters is located 100km north of Clermont and lies adjacent to known gold deposits, including Twin Hills and Anomaly 309. These deposits are hosted within Cycle 2 lithologies of the Paleozoic Drummond Basin, a well known geological province for gold mineralisation. The company is exploring for gold mineralisation similar to that known in the area, and these types of deposits have been classified as *Low-sulphidation quartz-adularia epithermal-style Au systems*.

Soil sampling (MMI) by previous explorers had identified gold anomalism in the southern portion of the project area, named the SE infill and SE extension areas. Peak

Au results to 34 ppb were recorded together with anomalous (and associated) Ag, As, Co and Mo.

Details in respect to the legal status and tenure of the tenements comprising the Projects have not been considered in this Report but are outlined in the Solicitor's Report in Section on Tenements contained in Section 13 of the Prospectus.

## DECLARATIONS

### Relevant codes and guidelines

This Report has been prepared as a technical assessment in accordance with the *Code for Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (the "VALMIN Code")*, which is binding upon Members of the Australasian Institute of Mining and Metallurgy ("AusIMM") and the Australian Institute of Geoscientists ("AIG"), as well as the rules and guidelines issued by the Australian Securities and Investments Commission ("ASIC") and the ASX Limited ("ASX") which pertain to Independent Expert Reports (Regulatory Guides RG111 and RG112).

Where and if mineral resources have been referred to in this Report, the classifications are consistent with the *"Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code")*, prepared by the Joint Ore Reserves Committee of the AusIMM, the AIG and the Minerals Council of Australia, effective December 2004.

Under the definition provided by the ASX and in the VALMIN Code, these properties are classified as 'exploration projects', which are inherently speculative in nature. The properties are considered to be sufficiently prospective, subject to varying degrees of risk, to warrant further exploration and development of their economic potential, consistent with the exploration and development programs proposed by the Company.

### Sources of Information

The statements and opinion contained in this Report are given in good faith and this review is based on information provided by the title holders, along with technical reports prepared by consultants, previous tenements holders and other relevant published and unpublished data for the area. I have endeavoured, by making all reasonable enquiries, to confirm the authenticity, accuracy and completeness of the

technical data upon which this Report is based. A final draft of this Report was provided to the Company along with a written request to identify any material errors or omissions prior to lodgement.

This Report has been compiled based on information available up to and including the date of this Report. Consent has been given for the distribution of this Report in the form and context in which it appears. I have no reason to doubt the authenticity or substance of the information provided.

### **Qualifications and Experience**

The person responsible for the preparation of this Report is:

Malcolm Castle, B.Sc.(Hons), GCertAppFin (Sec Inst), MAusIMM.

Malcolm Castle has over 40 years experience in exploration geology and property evaluation, working for major companies for 20 years as an exploration geologist. He established a consulting company 20 years ago and specializes in exploration management, technical audit, due diligence and property valuation at all stages of development. He has wide experience in a number of commodities including gold, base metals, iron ore and mineral sands. He has been responsible for project discovery through to feasibility study in Australia, Fiji, Southern Africa and Indonesia and technical Audits in many countries.

Mr Castle completed studies in Applied Geology with the University of New South Wales in 1965 and has been awarded a B.Sc (Hons) degree. He has completed postgraduate studies with the Securities Institute of Australia in 2001 and has been awarded a Graduate Certificate in Applied Finance and Investment in 2004.

Mr Castle is a Member of the Australasian Institute of Mining and Metallurgy ("AusIMM") and has the appropriate relevant qualifications, experience, competence and independence to be considered as an "Expert" and "Competent Person" the Australian Valmin and JORC Codes, respectively.

### Independence

I am not, nor intend to be a director, officer or other direct employee of the Company and have no material interest in the Projects or the Company. The relationship with the Company is solely one of professional association between client and independent consultant. The review work and this Report are prepared in return for professional fees based upon agreed commercial rates and the payment of these fees is in no way contingent on the results of this Report.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Malcolm Castle', is shown on a light blue background.

Malcolm Castle,  
B.Sc.(Hons), MAusIMM,  
GCertAppFin (Sec Inst)

## THE THREE SISTERS PROJECT

## LOCATION AND TENURE

The Three Sisters project comprises exploration permits EPM 14588 and EPM15517, covering an area of 31.6 km<sup>2</sup>. The project is approximately 250km west of McKay, and 110km north of Clermont in Queensland and is located on the Mt. Coolon (SF55-07) 1:250,000 map sheet.



Figure 1: Location map of the Twin Hills area.

## REGIONAL GEOLOGY

The three sisters project is located in volcanic and sedimentary rocks ( Figure 2) of the Drummond Basin with the base of the basin being marked by the Thompson Fold Belt. The Lolworth-Ravenswood Block and the Anakie Inlier, part of this fold belt form a basement high that separates the Drummond Basin into eastern and western domains. The project is located proximal to this high.

The Drummond Basin trends north northwest and is interpreted as a broad graben structure that was developed during the late Devonian to early Carboniferous. The basin sediments lie unconformably on the basement and appear to have been deposited during three cycles :

1. Rifting and graben formation was characterised by discrete basins being created with rapid facies changes. Coarse intermediate and felsic rocks dominate this cycle with some minor clastic sediments. Andesitic intrusions and volcanoclastic rocks are common. The units include Silver Hill Volcanics Formation, St Anns Formation, Mount Wyatt Formation, Bimurra Volcanics
2. More uniform fluvial sediment deposition characterises this cycle which is proposed to have occurred during a period of broad basin subsidence. The units include Telemon Formation, Scartwater Formation, Mount Hall Formation, Raymond Formation
3. Maturing of the basin has seen fluvial and lacustrine sediments deposited. Basin highs can be attributed to felsic and intermediate centres developed and were the source of broad ignimbrite sheets. The units include Star of Hope Formation, Ducabrook Formation, Mount Rankin Formation, Natal Formation, Bulliwallah Formation.

Gold mineralisation in the area is dominantly high level epithermal gold-silver deposits hosted by the Lower Devonian rocks/sediments. Mineralisation at Twin Hills (BMA) and Pajingo deposits in the Drummond Basin are associated with rocks developed during cycle one and lie adjacent to the basement unconformity between the Anakie Inlier and the Drummond Basin.



Figure 2: Regional Geology Map.

## MINERALISATION

Several styles of mineralisation with a range of ages are found within the Drummond Basin and the Ravenswood Block basement, which bounds to the north.

**1. Low-sulphidation quartz-adularia epithermal-style Au systems** (e.g. Twin Hills, Pajingo, Wirralie, Yandan, Mt Coolon). These styles of gold deposits are localized along discrete structures in the Drummond Basin. Epithermal mineralisation in the Drummond Basin typically occurs in a volcanic environment associated with acid to intermediate rock types. Deposits are commonly hosted in volcanic-derived sediments or pyroclastics. An association with lavas or sub-volcanics (e.g. Pajingo) occurs but is not common. At Pajingo, Mt Coolon and Conway, the host rocks are primarily andesitic. All deposits are interpreted to be hosted within the oldest (Cycle 1) rocks of the basin sequence near the margins of the basin or the Anakie Inlier, which forms a horst-like block axially, oriented north-south near the centre of the basin.

These types of deposit have been further classified as 'Rift Low Sulphidation Deposits – Adularia-Sericite epithermal Au-Ag', which have the following broad characteristics; Have a strong structural control (dilatant), rather than with host rocks,

- Deposited as banded fissure veins and local vein breccias which are characterized by colloform banding,
- Generally Ag rich, Au:Ag commonly 1:10.
- Gangue minerals commonly chalcedony, adularia, quartz pseudomorphing platy carbonate).

The recognition of colloform banding is considered an important exploration tool when specifically exploring for these style of deposits.

### **2. Volcanogenic hosted massive sulphide deposits (Cu-Pb-Zn-Ag-Ba-Au)**

This type of deposit occurs in the Cambro-Ordovician Mt Windsor Volcanics (e.g. Thalanga, Lione, Highway-Reward), part of the Seventy-Mile Range Group of the Drummond Basin near Charters Towers.

### **3. Mesothermal, granite-hosted, Au in quartz - base metal sulphide veins.**

Mineralisation is mostly fault-hosted in granitoids and generally interpreted to be of Late Silurian age.

**4. Dilational breccias and vein arrays** (e.g. Ravenswood) – probably localised at reactivated fault intersections which act as conduits for ore-forming fluids, largely during the Permo-Carboniferous tectonic/intrusive event of the Drummond Basin.

**5. Carbonate-base metal systems** (e.g. Mt Leyshon, Mt Wright)

Carbonate-base metal gold deposits generally occur at higher crustal levels, and typically comprise gangue of carbonate, quartz, pyrite, sphalerite, galena, chalcopyrite as fracture/vein/breccias. Gold most commonly occurs with Mg carbonates. Wall rock clay alteration varies from chlorite with sericite at depth grading to illite marginally and at higher levels, and illite-smectite in shallowest settings.

Localised high to bonanza gold grades within carbonate-base metal gold deposits are attributed to a number of factors including telescoping of bonanza grade epithermal quartz gold-silver mineralisation (e.g., Porgera), in dilational structural settings improved mineral deposition by fluid mixing, fluid flow and repeated mineralisation, and also supergene enrichment in the upper portions of some systems.

Many carbonate-base metal gold deposits occur as fissure veins mined by underground means (e.g. Busai at Woodlark Is), while fracture/vein (e.g., Porgera, Hidden Valley) and breccia matrix fill or disseminated ores (e.g., Kelian, Mt Leyshon) are more applicable to open pit mining. Many are associated with high level domes or phreatomagmatic (diatreme) breccias (e.g., Kelian, Mt Leyshon). At higher crustal levels clay altered finely comminuted breccias are incompetent and so do not fracture well and mineralisation tends to occur in the fractured adjacent competent host rocks (e.g., Kelian), while at depth mineralisation may occur as a breccia matrix within diatreme bodies (e.g., Mt Leyshon).

Transitions to adularia-sericite gold deposits are recognised in the association of gold with Mn oxide in some deposits. In the latter case, although outcropping as colloform banded quartz veins with bonanza gold in ginguero bands typical of adularia-sericite systems, the overall ore system, demonstrates a strong association with base metal sulphides and Mn oxide (after Mn carbonate), and bottoms at the change to calcite, like many carbonate-base metal gold deposits.

## LOCAL GEOLOGY

Clays of the Tertiary Sutor formation form a cover of up to 80m deep in localities over the tenement group.

Mineralisation in the area is related to hydrothermal breccias within felsic volcanoclastic and sedimentary rocks belonging to cycle 1 of the Drummond basin. The deposits of the area are interpreted to be structurally controlled epithermal gold-silver deposits. Faults, splays and structures provide conduits that result in mineralisation and alteration of the wall rock, this includes intense silicification. Many of the typical features of epithermal mineralisation have been recognised in the area even though outcrop is limited. It is apparent from work completed by other companies in the area that hydrothermal activity can be defined by the destruction of magnetite

Three Sister Project area lies within a well known epithermal field, characterized by adularia-sericite gold-silver systems and silica sinters (eg: Twin Hills, Pajingo-Vera Nancy), and this style of deposit be the logical first pass exploration target.

Geochemical signatures/associations together with structural setting will be important as first pass exploration tools. It should also be stressed that potential zones of mineralisation may not crop out at surface.

## PAST EXPLORATION

### **Greenland Minerals and Energy Limited, 2006**

Exploration of EPM 14588 by the former registered holder, Greenland Minerals and Energy Limited (formerly The Gold Company Ltd) ("Greenland"), included a review of open file data, construction of a GIS database that outlined the historic mineralisation trends, together with geophysical and geochemical survey results and recommendations for follow-up exploration of anomalies identified from reconnaissance soil sampling. It was concluded that because of the extensive and relatively thick (30 m) Tertiary cover, the tenement was not adequately explored.

In 2006-2007, geochemical surveys of EPM 14588 were carried out by Greenland. This work which comprised soil sampling using Multi Metal Ion (MMI) analysis was successful in delineating a number of significant gold anomalies. A number of values in the 10 - 15 ppb Au range were returned from an inferred corridor in the south eastern Infill part of the tenement area.

MMI reported that this first-pass geochemical survey had identified an area of interest containing anomalous gold values that warranted more detailed investigation, and recommended that the density of the sampling should be increased from 500m spaced lines having a 50m sample interval, to lines at 100m spacing sampled every 50m.

In June 2007, Greenland extended their exploration program to include closer spaced MMI soil sampling of previously identified gold anomalous zones in what were designated the SE infill and SE Extensional areas. In all, a total of over 6500 MMI soil samples were collected by Greenland.

### **Riviera Resources Limited, 2008**

#### *MMI Soil Sampling*

A total of 994 MMI soil samples were collected by Riviera in August-September 2008, principally in the southern portion of the project area over the historical SE Infill and SE extension areas defined by previous explorers. Of these, 18 samples were collected as field duplicates (ie: two samples from same location) for internal QA/QC for the laboratory.

Samples were sent to ALS-Chemex in Townsville for analysis. A total of 58 elements and pH were selected for analysis. The requested analytical methods were Ionic Leach (ME-MS223), pH Leach (MS-23) and ICP-MS. With the exception of some elements including Ca (ppm), all elements were analysed to ppb levels.

Elements considered as useful pathfinders include Ag, As, Co, Mo and Cu. Other elements including Zn, Pb, Hg, Nb, Cd and Be showed either a localized response or overall weak correlation to gold. Without useful regolith information for the project area, it is difficult to fully quantify the responses of the various elements other than to show broad or general trends or associations. A thorough understanding of the regolith is considered important, especially when reported thicknesses of over 30m of transported cover are taken into account.

Peak gold assay values for the 2008 programme was 12.5 ppb, with 90% of samples assaying < 2.6 ppb Au. This value was used as a broad lower threshold to contour the gold geochemical response and define possible trends. The sampling has potentially located or extended two contourable, discrete gold anomalies.

- Anomaly 1 – Extension of 2006-07 MMI anomaly along the 'Gold Corridor' (Mann 2007). NW trending anomaly, over 1200m long at +2.6ppb Au

contour. Inner core of +5ppb Au (only 2% of samples assayed + 5ppb Au) approximately 700m long. A gap of ~ 500m exists in the centre of the interpreted anomaly which requires infill sampling to fully define its extent.

- Anomaly 2 – Located in the southernmost portion of the 2008 infill grid area. The anomaly is ~ 750m long (at +2.6 ppb Au), open to the southeast. A number of isolated +5 ppb areas occur within the main anomaly, although no trends are observed. Further sampling to the south is warranted.

The 'Gold Corridor' defined by Greenland has been potentially extended and can now be seen to occur for over 3000 to 3500m along a NW/SE (Figure 3)

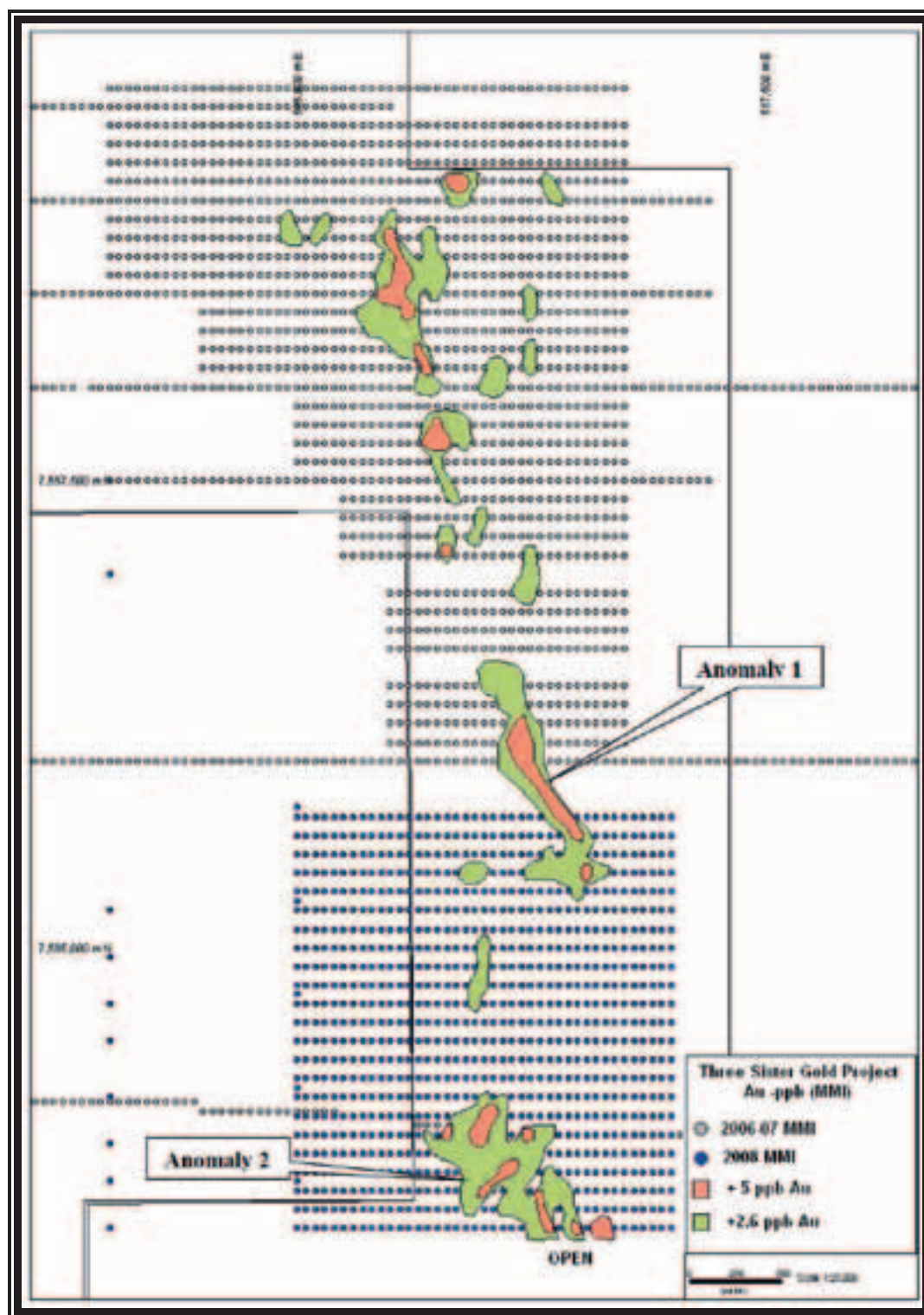


Figure 3: Gold Soils Map

*Aeromagnetic, Radiometric and Landsat Data*

In January 2009, Riviera purchased and interpreted multi-client aeromagnetics, radiometric and Landsat TM data that covered the project area. The aim of the interpretative work was to provide a broad geological framework, particularly for areas under cover and to also identify any geological or structural controls that may correlate with the MMI geochemical anomalies identified to date within the project area.

Although the geophysical data is relatively coarse, it has allowed a number of geological observations and interpretations to be made. The 3.0 to 3.5 km long Au-Ag MMI geochemical corridor appears to have a spatial relationship with the geological contact between the Anakie Metamorphics and Drummond Basin lithologies, tentatively interpreted as possible Silver Hills Formation due to its geophysical characteristics (however, this needs to be confirmed, and as most of the sequence appears to be concealed beneath Tertiary cover).

The geochemical anomalies also appear to be associated with the intersection of NW +/- NE trending structures along the Anakie Metamorphic-Silver Hills contact. Field checking to verify geochemical sampling along the Anakie Metamorphic contact is also recommended, prior to initial drill testing and/or ground IP.

A number of NE and NW trending structures are also apparent in the Digital Elevation Model image (Figure 4), probably due to subtle changes in elevation and weathering along fault zones.

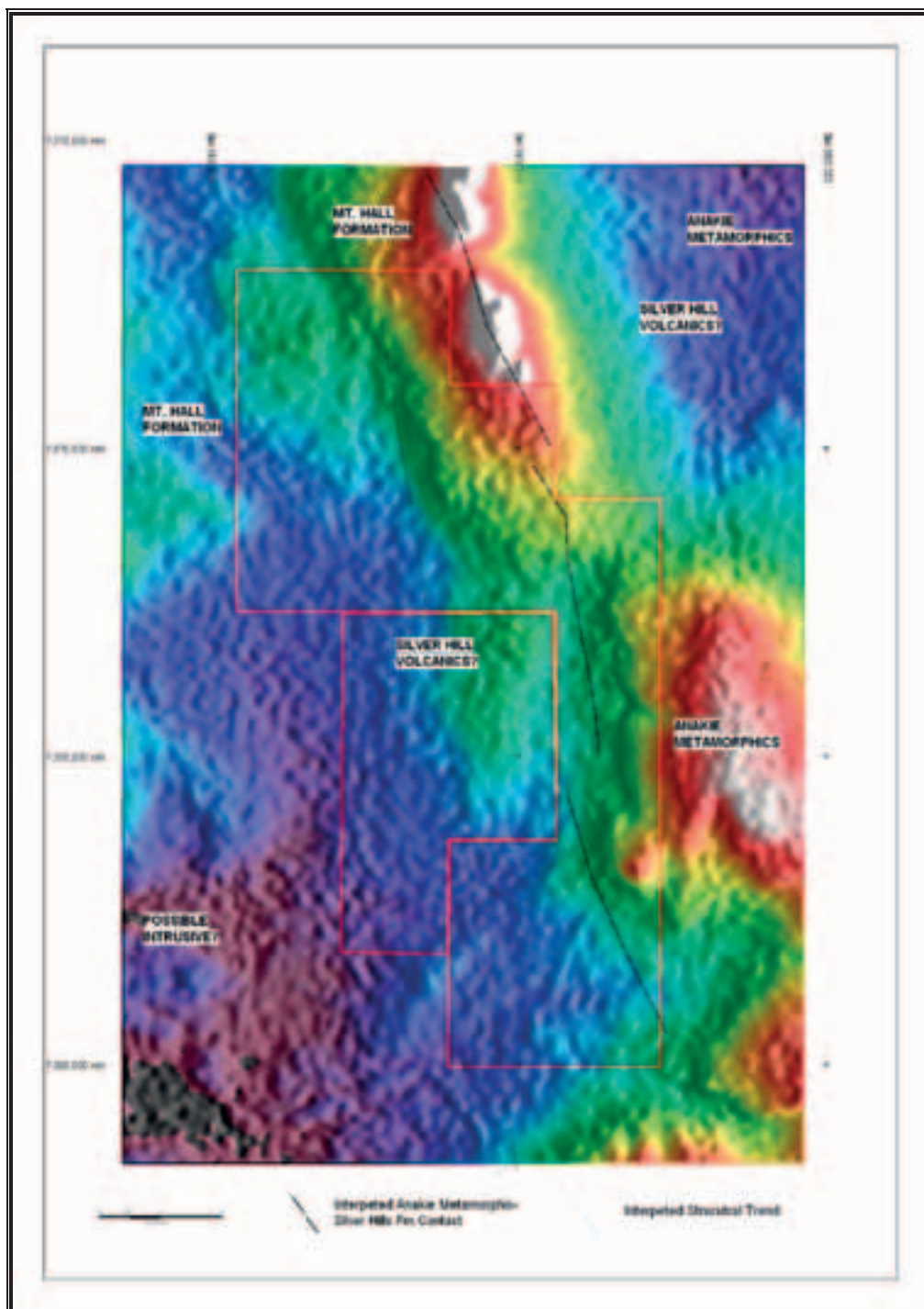


Figure 4: Digital Elevation Model

### *Reverse Circulation Drilling*

A program of Reverse Circulation drilling was undertaken to test a number of gold-silver MMI soil anomalies associated with an interpreted favourable geological contact located within EPM 14588.

A total of 23 holes for 1,543 metres were completed, the program failed to drill the southern lines as access to the site was too rough for the drilling equipment available and only the middle and northern lines were tested.

## CONCLUSION AND PROPOSED BUDGET

The drilling was designed to test for epithermal gold mineralisation beneath transported cover the average depth of the exploration holes was 67 metres. All results have been received as no significant results have been reported. Anomaly 2 is still untested.

The surface anomalies indicated by the MMI survey may occur in transported overburden and the possibility of these trends being smeared or offset from the source mineralization needs to be considered.

The Three Sisters project area covers parts of the Devonian - Carboniferous Drummond Basin in central -Queensland in which proven high grade epithermal mineralisation is hosted by volcanic and sedimentary rock sequences. These mineralised structures strike into the project area. The epithermal mineralisation so far identified, may form part of a very much larger system that has the potential to host both base metal and other porphyry styles of mineralisation.

A two year exploration budget is proposed by Riviera that includes further RC drilling. 1,500 metres are planned in year 1 with a budget of \$130,000 and 4,000 metres are planned in year 2 with a budget of \$287,000. The exploration budget will be subject to modification on an ongoing basis depending on the results obtained from exploration and development activities as they progress.

It is considered that the Company has a reasonable proposed exploration budget over two years consistent with its stated objectives and that this program is warranted and justified on the basis of the historical exploration activity and demonstrated potential for discovery of gold mineralisation.

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## GLOSSARY OF TECHNICAL TERMS

|                           |                                                                                                                                                                                                                                                                                            |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| aeolian                   | Formed or deposited by wind.                                                                                                                                                                                                                                                               |
| aerial photography        | Photographs of the earth's surface taken from an aircraft.                                                                                                                                                                                                                                 |
| aeromagnetic              | A survey undertaken by helicopter or fixed-wing aircraft for the purpose of recording magnetic characteristics of rocks by measuring deviations of the earth's magnetic field.                                                                                                             |
| airborne geophysical data | Data pertaining to the physical properties of the earth's crust at or near surface and collected from an aircraft.                                                                                                                                                                         |
| aircore                   | Drilling method employing a drill bit that yields sample material which is delivered to the surface inside the rod string by compressed air.                                                                                                                                               |
| alluvial                  | Pertaining to silt, sand and gravel material, transported and deposited by a river.                                                                                                                                                                                                        |
| alluvium                  | Clay silt, sand, gravel, or other rock materials transported by flowing water and deposited in comparatively recent geologic time as sorted or semi-sorted sediments in riverbeds, estuaries, and flood plains, on lakes, shores and in fans at the base of mountain slopes and estuaries. |
| alteration                | The change in the mineral composition of a rock, commonly due to hydrothermal activity.                                                                                                                                                                                                    |
| amphibolite facies        | An assemblage of minerals formed at moderate to high temperatures (450°C to 700°C) during regional metamorphism.                                                                                                                                                                           |
| andesite                  | An intermediate volcanic rock composed of andesine and one or more mafic minerals.                                                                                                                                                                                                         |
| anomalies                 | An area where exploration has revealed results higher than the local background level.                                                                                                                                                                                                     |
| anticline                 | A fold in the rocks in which strata dip in opposite directions away from the central axis.                                                                                                                                                                                                 |
| antiformal                | An anticline-like structure.                                                                                                                                                                                                                                                               |
| Archaean                  | The oldest rocks of the Precambrian era, older than about 2,500 million years.                                                                                                                                                                                                             |
| assayed                   | The testing and quantification of metals of interest within a sample.                                                                                                                                                                                                                      |
| Au                        | Chemical symbol for gold.                                                                                                                                                                                                                                                                  |
| auger sampling            | A drill sampling method using an auger to penetrate upper horizons and obtain a sample from lower in the hole.                                                                                                                                                                             |
| axial plane               | The plane that intersects the crest or trough of a fold, about which the limbs are more or less symmetrically arranged.                                                                                                                                                                    |
| basalts                   | A volcanic rock of low silica (<55%) and high iron and magnesium composition, composed primarily of plagioclase and pyroxene.                                                                                                                                                              |
| polymetallics             | A non-precious metal, usually referring to copper, lead and zinc.                                                                                                                                                                                                                          |
| bedrock                   | Any solid rock underlying unconsolidated material.                                                                                                                                                                                                                                         |
| BIF                       | A rock consisting essentially of iron oxides and cherty silica, and possessing a marked banded appearance.                                                                                                                                                                                 |
| BLEG sampling             | Bulk leach extractable gold analysis; an analytical method for accurately determining low levels of gold.                                                                                                                                                                                  |
| brittle                   | Rock deformation characterised by brittle fracturing and brecciation.                                                                                                                                                                                                                      |
| Cainozoic                 | An era of geological time spanning the period from 65 million years ago to the present.                                                                                                                                                                                                    |

|                    |                                                                                                                                                                   |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| carbonate          | Rock of sedimentary or hydrothermal origin, composed primarily of calcium, magnesium or iron and CO <sub>3</sub> . Essential component of limestones and marbles. |
| chert              | Fine grained sedimentary rock composed of cryptocrystalline silica.                                                                                               |
| chlorite           | A green coloured hydrated aluminium-iron-magnesium silicate mineral (mica) common in metamorphic rocks.                                                           |
| clastic<br>clays   | Pertaining to a rock made up of fragments or pebbles (clasts).<br>A fine-grained, natural, earthy material composed primarily of hydrous aluminium silicates.     |
| colluvium          | A loose, heterogeneous and incoherent mass of soil material deposited by slope processes.                                                                         |
| conduits           | The main pathways that facilitate the movement of hydrothermal fluids.                                                                                            |
| conglomerate       | A rock type composed predominantly of rounded pebbles, cobbles or boulders deposited by the action of water.                                                      |
| copper             | A reddish metallic element, used as an electrical conductor on the basis of brass and bronze.                                                                     |
| dacite             | An extrusive rock composed mainly of plagioclase, quartz and pyroxene or hornblende or both.                                                                      |
| depletion          | The lack of gold in the near-surface environment due to leaching processes during weathering.                                                                     |
| diamond drill hole | Mineral exploration hole completed using a diamond set or diamond impregnated bit for retrieving a cylindrical core of rock.                                      |
| dilational         | Open space within a rock mass commonly produced in response to folding or faulting.                                                                               |
| dolerite           | A medium grained mafic intrusive rock composed mostly of pyroxenes and sodium-calcium feldspar.                                                                   |
| DoIR               | Department of Industry and Resources, WA.                                                                                                                         |
| ductile            | Deformation of rocks or rock structures involving stretching or bending in a plastic manner without breaking.                                                     |
| dykes              | A tabular body of intrusive igneous rock, crosscutting the host strata at a high angle.                                                                           |
| en-echelon         | Repeating parallel, but offset, occurrences of lenticular bodies such as ore veins.                                                                               |
| erosional          | The group of physical and chemical processes by which earth or rock material is loosened or dissolved and removed from any part of the earth's surface.           |
| fault zone         | A wide zone of structural dislocation and faulting.                                                                                                               |
| feldspar           | A group of rock forming minerals.                                                                                                                                 |
| felsic             | An adjective indicating that a rock contains abundant feldspar and silica.                                                                                        |
| folding            | A term applied to the bending of strata or a planar feature about an axis.                                                                                        |
| foliated           | Banded rocks, usually due to crystal differentiation as a result of metamorphic processes.                                                                        |
| follow-up          | A term used to describe more detailed exploration work over targets generated by regional exploration.                                                            |
| g/t                | Grams per tonne, a standard volumetric unit for demonstrating the concentration of precious metals in a rock.                                                     |
| gabbro             | A fine to coarse grained, dark coloured, igneous rock composed mainly of calcic plagioclase, clinopyroxene and sometimes olivine.                                 |

|                       |                                                                                                                          |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------|
| geochemical           | Pertains to the concentration of an element.                                                                             |
| geophysical           | Pertains to the physical properties of a rock mass.                                                                      |
| GIS database          | A system devised to present partial data in a series of compatible and interactive layers.                               |
| gneissic              | Coarse grained metamorphic rocks characterised by mineral banding of the light and dark coloured constituent minerals.   |
| granite               | A coarse-grained igneous rock containing mainly quartz and feldspar minerals and subordinate micas.                      |
| granoblastic          | A term describing the texture of a metamorphic rock in which the crystals are of equal size.                             |
| granodiorite          | A coarse grained igneous rock composed of quartz, feldspar and hornblende and/or biotite.                                |
| greenschist           | A metamorphosed basic igneous rock which owes its colour and schistosity to abundant chlorite.                           |
| greenstone belt       | A broad term used to describe an elongate belt of rocks that have undergone regional metamorphism to greenschist facies. |
| greywackes            | A sandstone like rock, with grains derived from a dominantly volcanic origin.                                            |
| GSWA                  | Geological Survey of Western Australia.                                                                                  |
| gypsum                | Mineral of hydrated, or water-containing, calcium sulphate.                                                              |
| halite                | Impure salt deposit formed by evaporation.                                                                               |
| hangingwall           | The mass of rock above a fault, vein or zone of mineralization.                                                          |
| hematite              | Iron oxide mineral, $\text{Fe}_2\text{O}_3$ .                                                                            |
| hinge zone            | A zone along a fold where the curvature is at a maximum.                                                                 |
| hydrothermal fluids   | Pertaining to hot aqueous solutions, usually of magmatic origin, which may transport metals and minerals in solution.    |
| igneous               | Rocks that have solidified from a magma.                                                                                 |
| infill                | Refers to sampling or drilling undertaken between pre-existing sample points.                                            |
| insitu                | In the natural or original position.                                                                                     |
| interflow             | Refers to the occurrence of other rock types between individual lava flows within a stratigraphic sequence.              |
| intermediate          | A rock unit which contains a mix of felsic and mafic minerals.                                                           |
| intrusions            | A body of igneous rock which has forced itself into pre-existing rocks.                                                  |
| intrusive contact     | The zone around the margins of an intrusive rock.                                                                        |
| ironstone             | A rock formed by cemented iron oxides.                                                                                   |
| isoclinal             | A series of folds that dip in the same direction at the same angle.                                                      |
| joint venture         | A business agreement between two or more commercial entities.                                                            |
| komatiitic            | Magnesium-rich mafic to ultramafic extrusive rock.                                                                       |
| laterite              | A cemented residuum of weathering, generally leached in silica with a high alumina and/or iron content.                  |
| lead                  | A metallic element, the heaviest and softest of the common metals.                                                       |
| lineament             | A significant linear feature of the earth's crust, usually equating a major fault or shear structure.                    |
| lithological contacts | The contacts between different rock types.                                                                               |
| lithotypes            | Rock types.                                                                                                              |
| magnetite             | A mineral comprising iron and oxygen which commonly exhibits magnetic properties.                                        |
| metamorphic           | A rock that has been altered by physical and chemical processes involving heat, pressure and derived fluids.             |
| metasedimentary       | A rock formed by metamorphism of sedimentary rocks.                                                                      |

|                    |                                                                                                                                                           |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| monzogranite       | A granular plutonic rock containing approximately equal amounts of orthoclase and plagioclase feldspar, but usually with a low quartz content.            |
| Moz                | Millions of ounces.                                                                                                                                       |
| Mt                 | Million Tonnes.                                                                                                                                           |
| mylonite           | A hard compact rock with a streaky or banded structure produced by extreme granulation of the original rock mass in a fault or thrust zone.               |
| nickel             | Silvery-white metal used in alloys.                                                                                                                       |
| nickel laterite    | Nickel ore hosted within the laterite profile, usually derived from the weathering of olivine-rich ultramafic rocks.                                      |
| open pit           | A mine working or excavation open to the surface.                                                                                                         |
| Orthoimage         | A geographically located composite plan using aerial photography as a base.                                                                               |
| outcrops           | Surface expression of underlying rocks.                                                                                                                   |
| palaeochannels     | An ancient preserved stream or river.                                                                                                                     |
| pegmatite          | A very coarse grained intrusive igneous rock which commonly occurs in dyke-like bodies containing lithium-boron-fluorine-rare earth bearing minerals.     |
| pisolitic          | Describes the prevalence of rounded manganese, iron or alumina-rich chemical concretions, frequently comprising the upper portions of a laterite profile. |
| playa lake         | Broad shallow lakes that quickly fill with water and quickly evaporate, characteristic of deserts.                                                        |
| polymictic         | Referring to coarse sedimentary rocks, typically conglomerate, containing clasts of many different rock types.                                            |
| porphyries         | Felsic intrusive or sub-volcanic rock with larger crystals set in a fine groundmass.                                                                      |
| ppb                | Parts per billion; a measure of low level concentration.                                                                                                  |
| Proterozoic        | An era of geological time spanning the period from 2,500 million years to 570 million years before present.                                               |
| pyroxenite         | A coarse grained igneous intrusive rock dominated by the mineral pyroxene.                                                                                |
| quartz reefs       | Old mining term used to describe large quartz veins.                                                                                                      |
| quartzofeldspathic | Compositional term relating to rocks containing abundant quartz and feldspar, commonly applied to metamorphic and sedimentary rocks.                      |
| quartzose          | Quartz-rich, usually relating to clastic sedimentary rocks.                                                                                               |
| RAB drilling       | A relatively inexpensive and less accurate drilling technique involving the collection of sample returned by compressed air from outside the drill rods.  |
| rafts              | A relatively large block of foreign rock incorporated into an intrusive magma.                                                                            |
| RC drilling        | A drilling method in which the fragmented sample is brought to the surface inside the drill rods, thereby reducing contamination.                         |
| regolith           | The layer of unconsolidated material which overlies or covers insitu basement rock.                                                                       |
| residual           | Soil and regolith which has not been transported from its point or origin.                                                                                |
| resources          | Insitu mineral occurrence from which valuable or useful minerals may be recovered.                                                                        |
| rhyolite           | Fine-grained felsic igneous rock containing high proportion of silica and felspar.                                                                        |

|                          |                                                                                                                                                                                                                                                                                                |
|--------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| rock chip sampling       | The collection of rock specimens for mineral analysis.                                                                                                                                                                                                                                         |
| saline                   | Salty                                                                                                                                                                                                                                                                                          |
| saprock                  | Zone of weathered rock preserved within the weathered profile.                                                                                                                                                                                                                                 |
| saprolite                | Disintegrated, in-situ rock, partially decomposed by the chemical and physical processes of oxidation and weathering.                                                                                                                                                                          |
| satellite imagery        | The images produced by photography of the earth's surface from satellites.                                                                                                                                                                                                                     |
| schist                   | A crystalline metamorphic rock having a foliated or parallel structure due to the recrystallisation of the constituent minerals.                                                                                                                                                               |
| scree                    | The rubble composed of rocks that have formed down the slope of a hill or mountain by physical erosion.                                                                                                                                                                                        |
| sedimentary              | A term describing a rock formed from sediment.                                                                                                                                                                                                                                                 |
| sericite                 | A white or pale apple green potassium mica, very common as an alteration product in metamorphic and hydrothermally altered rocks.                                                                                                                                                              |
| shale                    | A fine grained, laminated sedimentary rock formed from clay, mud and silt.                                                                                                                                                                                                                     |
| sheared                  | A zone in which rocks have been deformed primarily in a ductile manner in response to applied stress.                                                                                                                                                                                          |
| sheet wash               | Referring to sediment, usually sand size, deposited over broad areas characterised by sheet flood during storm or rain events. Superficial deposit formed by low temperature chemical processes associated with ground waters, and composed of fine grained, water-bearing minerals of silica. |
| silcrete                 | Superficial deposit formed by low temperature chemical processes associated with ground waters, and composed of fine grained, water-bearing minerals of silica.                                                                                                                                |
| silica                   | Dioxide of silicon, SiO <sub>2</sub> , usually found as the various forms of quartz.                                                                                                                                                                                                           |
| sills                    | Sheets of igneous rock which is flat lying or has intruded parallel to stratigraphy.                                                                                                                                                                                                           |
| silts                    | Fine-grained sediments, with a grain size between those of sand and clay.                                                                                                                                                                                                                      |
| soil sampling            | The collection of soil specimens for mineral analysis.                                                                                                                                                                                                                                         |
| stocks                   | A small intrusive mass of igneous rock, usually possessing a circular or elliptical shape in plan view.                                                                                                                                                                                        |
| strata                   | Sedimentary rock layers.                                                                                                                                                                                                                                                                       |
| stratigraphic            | Composition, sequence and correlation of stratified rocks.                                                                                                                                                                                                                                     |
| stream sediment sampling | The collection of samples of stream sediment with the intention of analysing them for trace elements.                                                                                                                                                                                          |
| strike                   | Horizontal direction or trend of a geological structure.                                                                                                                                                                                                                                       |
| subcrop                  | Poorly exposed bedrock.                                                                                                                                                                                                                                                                        |
| sulphide                 | A general term to cover minerals containing sulphur and commonly associated with mineralization.                                                                                                                                                                                               |
| supergene                | Process of mineral enrichment produced by the chemical remobilisation of metals in an oxidised or transitional environment.                                                                                                                                                                    |

|                 |                                                                                                                        |
|-----------------|------------------------------------------------------------------------------------------------------------------------|
| syenite         | An intrusive igneous rock composed essentially of alkali feldspar and little or no quartz and ferromagnesian minerals. |
| syncline        | A fold in rocks in which the strata dip inward from both sides towards the axis.                                       |
| talc            | A hydrous magnesium silicate, usually formed due to weathering of magnesium silicate rocks.                            |
| tectonic        | Pertaining to the forces involved in or the resulting structures of movement in the earth's crust.                     |
| tholeiitic      | A descriptive term for a basalt with little or no olivine.                                                             |
| thrust fault    | A reverse fault or shear that has a low angle inclination to the horizontal.                                           |
| tremolite       | A grey or white metamorphic mica of the amphibole group, usually occurring as bladed crystals or fibrous aggregates.   |
| ultramafic      | Igneous rocks consisting essentially of ferromagnesian minerals with trace quartz and feldspar.                        |
| veins           | A thin infill of a fissure or crack, commonly bearing quartz.                                                          |
| volcaniclastics | Pertaining to clastic rock containing volcanic material.                                                               |
| volcanics       | Formed or derived from a volcano.                                                                                      |
| zinc            | A lustrous, blueish-white metallic element used in many alloys including brass and bronze.                             |

CW:KG:1RIV01:C

21 September 2010

The Directors  
South American Ferro Metals Limited  
Level 1, 322 Hay Street  
SUBIACO WA 6009



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Dear Sirs

## INVESTIGATING ACCOUNTANT'S REPORT – SOUTH AMERICAN FERRO METALS LIMITED (FORMERLY RIVIERA RESOURCES LIMITED)

### INTRODUCTION

This report has been prepared at the request of the Directors of South American Ferro Metals Limited ("SAFM" or "the Company"), for inclusion in a Prospectus to be lodged with the Australian Securities and Investment Commission ("ASIC") on or around 21 September 2010 ("Prospectus"), relating to the proposed issue of 41,666,667 ordinary shares at an issue price of 36 cents each to raise a total of \$15,000,000.

The offer is not underwritten and the minimum subscription level is \$5,000,000 with a maximum subscription level of \$15,000,000.

### BASIS OF PREPARATION

The report has been prepared to provide investors with information on historical results and the financial position of SAFM, and to provide investors with a pro forma balance sheet of SAFM as at 30 June 2010 adjusted to include funds raised by this Prospectus and the completion of an exploration interest acquisition and other transactions as referred to in Note 2 of Appendix 2.

This Report does not address the rights attaching to the Shares to be issued in accordance with the Prospectus, the risks associated with the investment, nor form the basis of an Expert's opinion with respect to a valuation of the Company or a valuation of the Share issue price of 36 cents per share.

Bentleys has not been requested to consider the prospects for SAFM nor the merits and risks associated with becoming a shareholder and accordingly, has not done so, nor purports to do so. Bentleys accordingly takes no responsibility for those matters or for any matter or omission in the Prospectus, other than responsibility for this report.



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## BACKGROUND

Riviera Resources Limited was formed as a public company limited by shares on the 6 December 2007 and changed its name to South American Ferro Metals Limited on 13 September 2010.

From the date of incorporation to 30 June 2010, 62,000,000 ordinary fully paid shares have been issued as follows:

- 9,300,000 shares were issued on incorporation of the company at \$0.001 per share totalling \$9,300;
- 3,000,000 shares were issued to investors at \$0.10 per share totalling \$300,000;
- 12,500,000 shares were issued to investors under an Initial Public Offering at \$0.20 per share totalling \$2,500,000;
- 1,200,000 ordinary shares were issued to Vendors for the purchase of exploration projects at \$0.20 per share totalling \$240,000;
- 26,000,000 ordinary shares were issued in a non-renounceable rights issue at \$0.05 per share to existing shareholders to fund working capital requirements totalling \$1,300,000; and
- 10,000,000 ordinary shares were issued to sophisticated investors at \$0.05 per share totalling \$500,000.

On 22 October 2009, the Company issued 26,000,000 listed options exercisable at \$0.10 on or before 31 December 2014, for nil consideration to shareholders who took up the options to purchase shares in the non-renounceable rights issue.

On 22 November 2009, the Company issued 10,000,000 listed options exercisable at \$0.10 on or before 31 December 2014, for nil consideration to investors who took up the sophisticated investors placement.

Since incorporation, the other activities undertaken by the Company included the exploration of the Three Sisters Project in Clermont, Queensland and recently the proposed acquisition of South American Ferro Metals Limited ("SAFM Holdings") and its 100% owned subsidiary, SAFM Mineracao Ltd ("SAFM Brazil") through the initial issue of 167,955,934 ordinary shares pre-consolidation, and other shares based on completion of three performance milestones ("the Share Sale Agreement"). Refer to Section 5, 12 and 15 of this prospectus for further details.

## SCOPE OF REPORT

Bentleys has been requested to:

- (a) report whether anything has come to our attention which would cause us to believe that the historical financial information disclosed in the appendices to this report is not fairly presented in accordance with the recognition and measurement requirements (but not the disclosure requirements) of Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by SAFM, and
- (b) report whether anything has come to our attention which would cause us to believe that the pro forma financial information disclosed in the appendices to this report is not presented fairly in accordance with the basis of preparation and assumptions set out therein and with the recognition and measurement requirements (but not the disclosure requirements) of Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by SAFM.

SAFM has prepared, and is responsible for, the historical and pro forma financial information included in the appendices to this report.



## SCOPE OF REVIEW

Bentleys has not audited the financial statements of SAFM as at 30 June 2010. We have conducted our review of the historical financial information in accordance with Australian Auditing Standard ASRE 2405 "Review of Historical Financial Information Other Than a Financial Report". We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances, including:

- (i) enquiry of directors, management and others;
- (ii) analytical procedures on the historical information;
- (iii) a review of work papers, accounting records and other documents; and
- (iv) comparison of consistency in application of the recognition and measurement requirements (but not the disclosure requirements) of Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by SAFM.

The review procedures were substantially less in scope than an audit examination conducted in accordance with Australian Auditing Standards.

Having regard to the nature of the review, which provides less assurance than an audit, and to the nature of the historical and pro forma financial information, this report does not express an audit opinion on the historical and pro forma financial information included in the appendices to this report.

## VALUATION OF EXPLORATION INTERESTS

The principal assets of SAFM Limited will be its exploration interests.

The exploration interests have been included at cost and fair value in the pro forma balance sheet. We have not performed our own valuation of the exploration interests. We are unable to form a view on whether the carrying values of the interests are fairly stated.

## OPINIONS

- (a) Historical Financial Information

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the historical financial information, as set out in the appendices of this report is not presented fairly in accordance with the recognition and measurement requirements (but not the disclosure requirements) of Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by SAFM.

- (b) Pro Forma Financial Information

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the pro forma financial information, as set out in the appendices of this report is not presented fairly in accordance with the basis of preparation in the appendices and assumptions set out therein and with the recognition and measurement requirements (but not the disclosure requirements) of Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by SAFM.



## SUBSEQUENT EVENTS

To the best of Bentleys' knowledge and belief, there have been no material items, transactions or events subsequent to 30 June 2010 not otherwise disclosed in this report or its appendices that have come to our attention during the course of our review which would cause the information included in this report to be misleading or deceptive.

## INDEPENDENCE

Bentleys does not have any interest in the outcome of the listing of the shares, other than in connection with the preparation of this report for which normal professional fees will be received. Bentleys were not involved in the preparation of any part of the Prospectus, and accordingly, make no representations or warranties as to the completeness and accuracy of any information contained in any other part of the Prospectus. Bentleys consents to the inclusion of this report in the Prospectus in the form and content in which it is included. At the date of this report, this consent has not been withdrawn.

Yours faithfully

**BENTLEYS**  
Chartered Accountants

**CHRIS WATTS**  
Director



## APPENDIX 1 – HISTORICAL AND PRO-FORMA FINANCIAL INFORMATION

## INCOME STATEMENT

|                                                    | Reviewed<br>Actual<br>30 June 2010<br>\$ | Reviewed<br>Pro forma<br>Consolidated<br>30 June 2010<br>\$ |
|----------------------------------------------------|------------------------------------------|-------------------------------------------------------------|
| Income                                             | 101,825                                  | 101,825                                                     |
| Directors Fees                                     | (120,000)                                | (818,429)                                                   |
| Corporate secretarial expense                      | (60,000)                                 | (60,000)                                                    |
| Accounting and auditing expense                    | (75,770)                                 | (262,139)                                                   |
| Administrative expense                             | (60,000)                                 | (60,000)                                                    |
| Travel expense                                     | (110,030)                                | (110,030)                                                   |
| Interest expense                                   | -                                        | (1,309,365)                                                 |
| Legal expense                                      | (53,042)                                 | (53,042)                                                    |
| Computer expense                                   | (1,662)                                  | (101,309)                                                   |
| Project evaluation                                 | (133,656)                                | (209,913)                                                   |
| Other expenses                                     | (52,729)                                 | (531,257)                                                   |
| <b>Loss before income tax</b>                      | <b>(565,064)</b>                         | <b>(3,413,659)</b>                                          |
| Income tax expense                                 | -                                        | -                                                           |
| <b>Loss attributable to members of the company</b> | <b>(565,064)</b>                         | <b>(3,413,659)</b>                                          |



## APPENDIX 1 – HISTORICAL AND PRO-FORMA FINANCIAL INFORMATION

## BALANCE SHEET

|                                 | Note | Reviewed<br>Actual<br>30 June 2010<br>\$ | Reviewed<br>Pro forma<br>Consolidated<br>30 June 2010<br>\$ |
|---------------------------------|------|------------------------------------------|-------------------------------------------------------------|
| <b>CURRENT ASSETS</b>           |      |                                          |                                                             |
| Cash and cash equivalents       | 4    | 2,996,269                                | 18,377,845                                                  |
| Trade and Other Receivables     | 5    | 34,416                                   | 64,779                                                      |
| <b>TOTAL CURRENT ASSETS</b>     |      | <b>3,030,685</b>                         | <b>18,442,624</b>                                           |
| <b>NON CURRENT ASSETS</b>       |      |                                          |                                                             |
| Exploration expenditure         | 6    | 678,056                                  | 14,666,541                                                  |
| Financial asset                 | 7    | -                                        | -                                                           |
| <b>TOTAL NON CURRENT ASSETS</b> |      | <b>678,056</b>                           | <b>14,666,541</b>                                           |
| <b>TOTAL ASSETS</b>             |      | <b>3,708,741</b>                         | <b>33,109,165</b>                                           |
| <b>CURRENT LIABILITIES</b>      |      |                                          |                                                             |
| Trade and other payables        | 8    | 177,551                                  | 3,685,503                                                   |
| <b>TOTAL LIABILITIES</b>        |      | <b>177,551</b>                           | <b>3,685,503</b>                                            |
| <b>NET ASSETS</b>               |      | <b>3,531,190</b>                         | <b>29,423,662</b>                                           |
| <b>EQUITY</b>                   |      |                                          |                                                             |
| Issued capital                  | 9    | 4,458,028                                | 40,642,007                                                  |
| Option premium reserve          | 10   | -                                        | 5,000                                                       |
| Foreign currency reserve        | 11   | -                                        | (655,856)                                                   |
| Accumulated losses              | 12   | (926,838)                                | (10,567,489)                                                |
| <b>TOTAL EQUITY</b>             |      | <b>3,531,190</b>                         | <b>29,423,662</b>                                           |



## APPENDIX 2 – NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 1. Summary of significant accounting policies

#### (a) Basis of Accounting

The financial statements have been prepared in accordance with the measurement and recognition (but not the disclosure) requirements of Australian Accounting Standards, Australian Accounting Interpretations and the Corporations Act 2001.

The financial statements have been prepared on an accruals basis, are based on historical cost and except where stated do not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The preparation of the income statements and balance sheets requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the balance sheets are disclosed where appropriate.

The financial information has been prepared on the basis of a going concern. The Company's ability to continue as a going concern is contingent upon raising additional capital to fund future projects, other principal activities, and for use as working capital. If additional capital is not raised, the going concern basis may not be appropriate with the result that the Company may have to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts different from those stated in the financial information. No allowance for such circumstances has been made in the financial information.

The balance sheet as at 30 June 2010 is in accordance with the Company's reviewed financial position at that date. The pro forma balance sheet at 30 June 2010 represents the reviewed financial position as at that date adjusted for the transactions discussed in Note 2 to this report. The balance sheet should be read in conjunction with the notes set out in this report.

#### (b) Principles of Consolidation

A controlled entity is any entity over which SAFM has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

As at 30 June 2010, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

**(c) Business combinations**

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method.

The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

**(d) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 12 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

**(e) Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

All revenue is stated net of the amount of goods and services tax (GST).

**(f) Income Tax**

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where



amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

**(g) Impairment of Assets**

At each reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**(h) Exploration, Evaluation and Development Expenditure**

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.



Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

**(i) Financial Instruments**

**Recognition and Initial Measurement**

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

**Derecognition**

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**Classification and Subsequent Measurement**

**(i) Financial assets at fair value through profit or loss**

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

**(ii) Loan and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.



(iii) Held to maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the company's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

(iv) Available for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

(v) Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

(j) **Trade Creditors**

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(k) **Issued Capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

(l) **Share Based Payments**

The Company operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(m) **Foreign Currency Transaction and Balances**

**Functional and presentation currency**

The functional currency of each of the Consolidated Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

**Transaction and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.



Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

#### Group companies

The financial results and position of foreign operations whose functional currency is different from the consolidated group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the consolidated group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

#### (n) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

## 2. Actual and Proposed Transactions to Arrive at the Pro-Forma Financial Information

The pro-forma financial information has been included for illustrative purposes to reflect the position of SAFM on the assumption that the following transactions had occurred as at 30 June 2010:

- (a) Consolidate existing capital on a 1 for 2 basis such that the 62,000,000 ordinary shares on issue will be consolidated to 31,000,000 ordinary shares and the number of options on issue will be reduced from 36,000,000 to approximately 18,000,000 and the exercise price of the options will increase by a multiple of two;
- (b) The issue of 41,666,667 ordinary shares at \$0.36 each pursuant to the Prospectus to raise a gross amount of \$15,000,000;
- (c) The payment of expenses of the Prospectus totalling an estimated \$950,000 inclusive of GST;
- (d) The issue of 167,955,934 ordinary shares at \$0.20 each to acquire SAFM pursuant to the terms of the Share Sale Agreement on a pre-consolidation basis;
- (e) The issue of 5,000,000 options to Cunningham Peterson Sharbanee Securities Pty Limited ("CPS") on a post-consolidation basis for an issue price of \$0.001 to raise a gross amount of \$5,000;
- (f) Consolidate shares issued to SAFM on a 1 for 2 basis such that the 167,955,934 ordinary shares on issue will be consolidated to 83,977,967 ordinary shares;
- (g) Accounting entries in relation to acquisition of SAFM; and
- (h) Reverse acquisition entries as a result of the acquiring SAFM (refer Note 3).



### 3. Acquisition of Subsidiaries

As per the Agreement, SAFM is to acquire all the issued capital in SAFM Holdings and its 100% owned subsidiary, SAFM Mineracao Ltda, the consideration being through the initial issue of 167,955,934 (pre-consolidation) ordinary shares, and other shares based on completion of three performance milestones.

Due to the material nature of the acquisition, the acquisition of SAFM Holdings is deemed a reverse acquisition for accounting purposes. Therefore the following represents the net assets of SAFM and the consideration paid by SAFM Holdings.

The major classes of assets and liabilities comprising the acquisition of the Company as at the date of acquisition are as follows:

|                                  | \$        |
|----------------------------------|-----------|
| Cash and cash equivalents        | 2,996,269 |
| Trade and other receivables      | 34,416    |
| Deferred exploration expenditure | 678,056   |
| Trade and other payables         | (177,551) |
| Net assets acquired              | 3,531,190 |
| Consideration paid               |           |
| Ordinary shares                  | 7,070,555 |

### 4. Cash and cash equivalents

|                                                        | Note | Reviewed<br>Actual<br>30 June 2010<br>\$ | Reviewed<br>Pro forma<br>Consolidated<br>30 June 2010<br>\$ |
|--------------------------------------------------------|------|------------------------------------------|-------------------------------------------------------------|
| Cash at Bank – 30 June 2010                            |      | 2,548,296                                | 2,548,296                                                   |
| Term Deposit – 30 June 2010                            |      | 447,973                                  | 447,973                                                     |
| Issue of 41,666,667 shares pursuant to this Prospectus | 2(b) | -                                        | 15,000,000                                                  |
| Prospectus issue costs                                 | 2(c) | -                                        | (950,000)                                                   |
| Issue of 5,000,000 options post-consolidation to CPS   | 2(e) | -                                        | 5,000                                                       |
| Cash at Bank – SAFM Holdings                           | 2(g) | -                                        | 1,326,576                                                   |
|                                                        |      | 2,996,269                                | 18,377,845                                                  |

### 5. Trade and other receivables

|                               |      |        |        |
|-------------------------------|------|--------|--------|
| Other Debtors – 30 June 2010  |      | 34,416 | 34,416 |
| Other Debtors – SAFM Holdings | 2(g) | -      | 30,363 |
|                               |      | 34,416 | 64,779 |



|                                                                                                                   | Note | Reviewed<br>Actual<br>30 June 2010<br>\$ | Reviewed<br>Pro forma<br>Consolidated<br>30 June 2010<br>\$ |
|-------------------------------------------------------------------------------------------------------------------|------|------------------------------------------|-------------------------------------------------------------|
| <b>6. Deferred exploration expenditure</b>                                                                        |      |                                          |                                                             |
| Exploration expenditure at cost – 30 June 2010                                                                    |      | 678,056                                  | 678,056                                                     |
| Exploration expenditure at cost – SAFM Holdings                                                                   | 2(g) | -                                        | 10,449,121                                                  |
| Exploration expenditure at fair valuation due to reverse acquisition                                              | 2(h) | -                                        | 3,539,364                                                   |
|                                                                                                                   |      | <u>678,056</u>                           | <u>14,666,541</u>                                           |
| <b>7. Financial asset</b>                                                                                         |      |                                          |                                                             |
| Initial acquisition entry of SAFM Holdings                                                                        | 2(d) | -                                        | 33,591,187                                                  |
| Elimination of investment                                                                                         | 2(g) | -                                        | (33,591,187)                                                |
|                                                                                                                   |      | <u>-</u>                                 | <u>-</u>                                                    |
| <b>8. Trade and Other Payables</b>                                                                                |      |                                          |                                                             |
| Trade and Other Payables – 30 June 2010                                                                           |      | 177,551                                  | 177,551                                                     |
| Trade and Other Payables – SAFM Holdings                                                                          | 2(g) | -                                        | 3,507,952                                                   |
|                                                                                                                   |      | <u>177,551</u>                           | <u>3,685,503</u>                                            |
| <b>9. Issued capital</b>                                                                                          |      |                                          |                                                             |
| 9,300,000 ordinary shares issued on incorporation at \$0.001 each                                                 |      | 9,300                                    | 9,300                                                       |
| 3,000,000 ordinary shares issued to investors at \$0.10 each                                                      |      | 300,000                                  | 300,000                                                     |
| 12,500,000 ordinary shares issued to investors at \$0.20 each                                                     |      | 2,500,000                                | 2,500,000                                                   |
| 1,200,000 ordinary shares issued to Vendors for the purchase of exploration project at \$0.20 per share           |      | 240,000                                  | 240,000                                                     |
| 26,000,000 ordinary shares issued in a non-renounceable rights issue to existing shareholders at \$0.05 per share |      | 1,300,000                                | 1,300,000                                                   |
| 10,000,000 ordinary shares issued to sophisticated investors for \$0.05 per share                                 |      | 500,000                                  | 500,000                                                     |
| Capital raising costs                                                                                             |      | (391,272)                                | (391,272)                                                   |
| Issue of 41,666,667 shares pursuant to this Prospectus                                                            | 2(b) | -                                        | 15,000,000                                                  |
| Prospectus issue costs                                                                                            | 2(c) | -                                        | (950,000)                                                   |
| 167,955,934 (pre-consolidation) ordinary shares issued to acquire SAFM Holdings at \$0.20 per share               | 2(d) | -                                        | 33,591,187                                                  |
| Share Capital – SAFM Holdings                                                                                     | 2(g) | -                                        | 19,521,452                                                  |
| Elimination of investment in SAFM Holdings                                                                        | 2(g) | -                                        | (33,591,187)                                                |
| Reverse acquisition entry                                                                                         | 2(h) | -                                        | 2,612,527                                                   |
|                                                                                                                   |      | <u>4,458,028</u>                         | <u>40,642,007</u>                                           |



|                                                                                         | Note | Reviewed<br>Actual<br>30 June 2010<br>\$ | Reviewed<br>Pro forma<br>Consolidated<br>30 June 2010<br>\$ |
|-----------------------------------------------------------------------------------------|------|------------------------------------------|-------------------------------------------------------------|
| <b>9. Issued Capital (Continued)</b>                                                    |      |                                          |                                                             |
| Ordinary Shares                                                                         |      | No.                                      | No.                                                         |
| Opening Balance – 30 June 2010                                                          |      | 62,000,000                               | 62,000,000                                                  |
| - Consolidate existing capital on a one for two basis                                   | 2(a) | -                                        | (31,000,000)                                                |
| - Issue of 41,666,667 shares pursuant to this Prospectus                                | 2(b) | -                                        | 41,666,667                                                  |
| - Issue 167,955,934 (pre-consolidation) ordinary shares issued to acquire SAFM Holdings | 2(d) | -                                        | 167,955,934                                                 |
| - Consolidate shares issued to SAFM Holdings on a one for two basis                     | 2(f) | -                                        | (83,977,967)                                                |
|                                                                                         |      | 62,000,000                               | 156,644,634                                                 |
| <b>10. Option Premium Reserve</b>                                                       |      |                                          |                                                             |
| Option Premium Reserve                                                                  | 2(e) | -                                        | 5,000                                                       |
|                                                                                         |      | -                                        | 5,000                                                       |
| Options                                                                                 |      | No.                                      | No.                                                         |
| Opening Balance – 30 June 2010                                                          |      | 36,000,000                               | 36,000,000                                                  |
| - Consolidate existing capital on a one for two basis                                   | 2(a) | -                                        | (18,000,000)                                                |
| - Issue options post-consolidation to CPS                                               | 2(e) | -                                        | 5,000,000                                                   |
|                                                                                         |      | -                                        | 23,000,000                                                  |
| <b>11. Foreign Currency Reserve</b>                                                     |      |                                          |                                                             |
| Foreign currency reserve – SAFM Holdings                                                | 2(g) | -                                        | (655,856)                                                   |
|                                                                                         |      | -                                        | (655,856)                                                   |
| <b>12. Accumulated losses</b>                                                           |      |                                          |                                                             |
| Accumulated losses – 30 June 2010                                                       |      | (361,773)                                | (361,773)                                                   |
| Current period loss – 30 June 2010                                                      |      | (565,065)                                | (565,065)                                                   |
| Accumulated losses – SAFM Holdings                                                      | 2(g) | -                                        | (7,718,895)                                                 |
| Current period loss – SAFM Holdings                                                     | 2(g) | -                                        | (2,848,594)                                                 |
| Reverse acquisition entry                                                               | 2(h) | -                                        | 926,838                                                     |
|                                                                                         |      | (926,838)                                | (10,567,489)                                                |

**13. Related Parties**

Refer to Section 15 of this Prospectus for details of related party transactions and shareholdings.

**14. Commitments****(a) Exploration**

The Company will have minimum obligations pursuant to the terms and conditions of prospective tenement licences in the forthcoming year of \$122,500 for exploration commitments and \$1,986 for rental commitments for the Three Sisters Project in Queensland, Australia. These obligations are capable of being varied from time to time, in order to maintain current rights of tenure to mining tenements.

**(b) Native Title**

The Company's mining tenements in Queensland, Australia may be subject to native title applications in the future. At this stage it is not possible to quantify the impact (if any) that native title may have on the operations of the Company.

**15. Contingent Assets and Liabilities**

SAFM Brazil has additional instalments payable pursuant to the terms and conditions of its agreement with the previous owner of the Ponte Verde Project. Further details and specific arrangements are contained in Section 12 and 15 of this Prospectus.

At the date of our report, the Directors have not made any further specific undertakings regarding any amounts which may become payable in the future not otherwise disclosed in the Prospectus. In the opinion of the directors, other than the matters disclosed above, there were no material contingent liabilities or assets as at 30 June 2010 and in the interval between 30 June 2010 and the date of this report.

**16. Subsequent Events**

On 16 September 2010, the Company entered into a loan agreement to fund USD \$500,000 to SAFM Holdings which was drawdown on this date. The loan must be fully repaid within 3 months from the date of the loan and is interest free.

Apart from the above, there have been no other events subsequent to balance date not already disclosed or accounted for in the pro forma financial information which are sufficiently material to warrant disclosure.



Rio de Janeiro, September 3<sup>rd</sup>, 2010.

To

**SOUTH AMERICAN FERRO METALS LIMITED**

Level 1 322 Hay Street  
Subiaco WA 6008

Dear Sirs,

This letter has been prepared for inclusion in a prospectus to be issued by South American Ferro Metals Limited, a company incorporated in Australia. It includes a summary of the Brazilian mine legal system and our opinion regarding SAFM Mineração Ltda. ("Company"), its mineral rights comprised by the DNPM's proceeding number 831.929/84 ("Mineral Rights") and the agreement between the Company and Ponto Verde Mineração Ltda ("PVM") regarding the acquisition of the Mineral Rights. .

**1. Mining tenure in Brazil**

**Overview**

The government agency responsible for mining administration and mineral production data is Brazil's Departamento Nacional de Produção Mineral (**DNPM**) or National Department of Mineral Production.

The exploration and exploitation of mineral resources in Brazil is defined and regulated by the 1967 Mining Code (Executive Law No. 227 of 28 February 1967). Mining activity in Brazil requires the grant of concessions from the DNPM who are responsible for enforcing the Mining Code and its complementary legal provisions. Tenure in Brazil essentially consists of exploration applications, exploration licenses and mining concessions.

The process of acquiring title to a mineral property in Brazil is a phased procedure involving progressive categories of title as exploration and development work advances. Tenure is secure as long as the title holder meets clearly defined obligations over time, but the process of acquiring title can be lengthy. Typically the area covered by concessions varies from 10,000 ha in extent for the Amazon region and 2,000 ha for the rest of the country, but may be smaller in area depending on the region where the concession is situated and according to the mineral substance that is being researched.

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### ***Exploration applications***

Initially, an application must be filed for an exploration license. The application must meet certain regulatory requirements, including submission of a location map and exploration plan. The application must also be prepared under the responsibility of an authorized professional such as a geologist or mining engineer. A 60 day period after filing is provided for the applicant to supply any further information that may be required. Exploration licenses are issued by the DNPM provided the applicant has met all the requirements and the area of interest is not already covered by a pre-existing application or exploration license.

### ***Exploration licenses***

Exploration licenses are granted for a maximum period of three years, which may be extended for an additional two to three year period, upon presentation of technical justification. They are also subject to a nominal annual charge of R\$2.02 per hectare during the original period and R\$3.06 during the extension period. Exploration must begin within 60 days following the granting of the license, and must not be suspended for more than three consecutive months or 120 non-consecutive days. Exploration must be carried out in accordance with the submitted exploration plan.

Upon completion of exploration work, the holder of the exploration license must produce a "Final Exploration Report" and a "Mining Plan" (in essence, the two reports may be regarded as a feasibility study).

### ***Mining concessions***

Mining concessions are only granted to corporations. Normally such corporations have a period of one year, following the DNPM's approval of the "Final Exploration Report", within which to present a "Mining Plan" (or feasibility study), and to apply for a mining concession. After the mining ordinance is published in the official gazette, the corporation has 90 days to request possession of the mineral deposit to be mined and six months to start the preparatory work outlined in the "Mining Plan". This term can be extended for a further six months, once or more, provided there are acceptable reasons (such as market restrictions, acts of God etc) that justify such extension.

Once mining has started it may not be interrupted for any period longer than six consecutive months unless the corporation has approval for a suspension of activities from the DNPM, which when granted provides for ongoing security of tenure. No fees are levied on the holder of a mining concession. Mining concessions are not limited in time and remain valid until depletion of the mineral deposit. Once a mining concession is granted, a mining company is required to obtain an environmental license. The environmental license is renewed annually subject to compliance with the environmental legislation.

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### *Surface rights*

In Brazil, mineral rights are distinct from surface ownership and/or rights and as such, a mining concession does not convey title to a mineral deposit, which remains vested in the Government. Rather, a mining concession gives to the holder the right to extract, process and sell minerals from a deposit, in accordance with a plan approved by the DNPM, until the deposit is exhausted. The property's surface right (including ownership) generally belongs to a third party, to whom in the case of iron ore mining operations, a rent and a royalty of 1% on net revenue is due monthly throughout the life of the project, commencing from the first iron ore sale. During the exploration phase, the landowner also has the right to receive income for the occupation and indemnity for surface usage. If there is no amicable agreement between parties regarding surface occupation and usage during exploration, the courts will assign an expert to evaluate damages and calculate the amount of indemnity. The maximum amount of indemnity cannot exceed the market value of the land.

### *Environmental considerations*

Article 225 of the Brazilian Constitution stipulates that mining operators must reclaim areas that they have environmentally degraded. In Brazil, the environmental legislation that is applied to mining is basically consolidated in the following environmental requirements: an environmental impact study (**EIA**), environmental licensing (**LA**) and a plan for recovery of degraded areas (**PRAD**). An EIA applies to mining projects for any mineral; an LA is mandatory for the installation, expansion and operation of any mining activity; and a PRAD requires suitable technical plan to rehabilitate the soil and other aspects of the environment that might be degraded by a mining operation.

## **2. Tenure of the Project**

### *Overview*

The Project area comprises a single mining concession title (**DNPM 831.929/84**) under which a mining right has been granted (**Mining Permit**). The Mining Permit is owned by SAFM Brazil and covers an area of 267,56 hectares.

### *Title to the Mining Permit*

The Company's Brazilian lawyers have verified the DNPM process concerning the Mining Permit, including a review of material agreements and legal proceedings in respect of the Mining Permit.

The concession, including the Mining Permit, was acquired by SAFM Brazil from Ponto Verde Mineração Ltda (**PVM**) pursuant to a contract dated 29 January 2008 (**PVM Contract**). Further details relating to the PVM Contract are set out in Section 3 of this Report.

Legal title to the Mining Permit was transferred to SAFM Brazil on November 27<sup>th</sup>, 2008,

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and remains in the name of SAFM Brazil.

On the basis of that review, it is considered that, as at 3 September 2010, the Mining Permit has good title, is valid and in force, and is free and clear of any judicial and extrajudicial encumbrances and taxes, other than as described in this section.

#### ***Term of the Mining Permit***

The term of the Mining Permit is open ended, which means that, provided SAFM Brazil observes the legal requirements relating to the Mining Permit, it will be valid until the depletion of the reserves within the Project.

#### ***Legal requirements for maintaining the Mining Permit***

The legal requirements for maintaining the Mining Permit include:

- (a) the presentation of an annual report and other necessary governmental communications in respect of the Mining Permit;
- (b) payment of a royalty to the government of 2% of net revenue from iron ore sold from the Mining Permit; and
- (c) obtaining and maintaining an environmental license in respect of the Project.

#### ***Environmental requirements***

An environmental preliminary license (LP) and installation license (LI) were granted to SAFM Brazil on 30 August 2010. SAFM Brazil is awaiting the grant of an environmental operation license (LO) to enable it to commence operations on the Project. All mining under the Mining Permit must be conducted in accordance with the conditions listed in the environmental license.

The area of the Mining Permit is located adjacent to a nature park, however the Company has been advised by its Brazilian lawyers that this will not result in additional restrictions on mining within the Mining Permit area as it is located outside the limits of the nature park.

#### ***Royalty***

There is a risk, depending on the outcome of a dispute between previous landowners of the Project (to which SAFM Brazil is not a party) that a royalty of 1% of the net revenue from the sale of iron ore produced from a 32 hectare area within the Mining Permit, may be payable.

Despite the existence of these proceedings, SAFM Brazil is entitled to exploit the deposit under the Mining Permit without hindrance.

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### 3. Contract with Ponto Verde Mineração Ltda

The concession, including the Mining Permit, was acquired by SAFM Brazil from Ponto Verde Mineração Ltda (**PVM**) pursuant to a contract dated 29 January 2008 (**PVM Contract**).

As at the date of this Report, the following purchase price installments remain payable under the PVM Contract:

- (a) SAFM Brazil must pay PVM US\$2,791,250 within five days of the registration of the surface rights over the concession in the name of SAFM Brazil. This installment is unlikely to be paid in the near future due to the existence of the proceedings regarding ownership of the surface rights over the concession. However, despite the existence of these proceedings, and the fact that the third installment is not yet required to be paid, SAFM Brazil is entitled to exploit the deposit under the Mining Permit without hindrance; and
- (b) SAFM Brazil must pay PVM US\$2,791,250 upon PVM providing a title clearance certificate establishing that all debts and encumbrances in the name of PVM have been cleared. This payment is suspended until SAFM is able to conduct activities on the Project, which will only occur upon receipt of all environmental licenses, including the LO license. SAFM Brazil instructs us that it has paid US\$500,000 of the Fourth Installment to PVM.

The content of this letter is intended to be relied upon only by the addressee indicated above with respect to the acquisition of the Mineral Rights and is strictly confidential. This opinion may not be used, circulated, or quoted or mentioned, in any manner, without our express previous approval.

Yours sincerely,

Luis Azevedo  
Bar Reg 80412 RJ

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14 September 2010

South American Ferro Metals Limited  
Level 1  
322 Hay Street  
SUBIACO WA 6009

Dear Sirs

#### **SOLICITOR'S REPORT ON TENEMENTS**

This Report is prepared for inclusion in a prospectus for the issue of up to 41,666,667 shares in the capital of South American Ferro Metals Limited (**Company**) at an issue price of \$0.36 per share to raise up to \$15,000,000 (**Prospectus**).

---

#### **1. SCOPE**

We have been requested to report on various Australian granted tenements in which the Company has an interest in (**Tenements**). The Tenements are located in Queensland.

Details of the Tenements are set out in Part I of the attached Schedule, which forms part of this Report.

---

#### **2. SEARCHES**

For the purposes of this Report, we have conducted searches and made enquiries in respect of all of the Tenements as follows:

- (a) we have obtained searches of the Tenements located in Queensland from the registers maintained by the Queensland Department of Employment, Economic Development and Innovation (**Department**). These searches were conducted on 18 August 2010. Key details on the status of these Tenements are set out in Part I of the Schedule;
- (b) we have obtained extracts of registered native title claims and native title determinations that apply to all of the Tenements, as determined by the National Native Title Tribunal (**NNTT**). This material was obtained on 18 August 2010. Details of native title claims and determinations are set out in Section 7 of this Report and Part II of the Schedule; and

- (c) we have reviewed all material agreements relating to the Tenements provided to us or registered as dealings against the Tenements as at the date of the searches referred to in paragraph (a) above.

---

### 3. OPINION

As a result of our searches and enquiries, but subject to the assumptions and qualifications set out in this Report, we are of the view that, as at the date of the relevant searches:

- (a) **(Company's Interest)**: this Report provides an accurate statement as to the Company's interest in the Tenements;
- (b) **(Good Standing)**: this Report provides an accurate statement as to the validity and good standing of the Tenements; and
- (c) **(Third party interests)**: this Report provides an accurate statement as to third party interests, including encumbrances, in relation to the Tenements.

---

### 4. DESCRIPTION OF THE TENEMENTS

#### 4.1 Rights of Tenement holder

The Tenements comprise two granted Exploration Permits under the *Mineral Resources Act 1989 (Qld)* (**Mining Act**). The Tenements are listed in Schedule 1. The following provides a description of the nature and key terms of these types of mining tenements as set out in the Mining Act.

##### Exploration Permit

An exploration permit (**EPM**) issued under the Mining Act is issued for the purpose of exploring for minerals (other than coal) and allows the holder to take action to determine the existence, quality and quantity of minerals on, in or under land by methods which include prospecting, geophysical surveys, drilling, and sampling and testing of materials. An EPM can be granted for a period of up to 5 years and is capable of renewal, although there is no automatic right to renewal.

EPMs are granted subject to general conditions prescribed by the Mining Act. The conditions include that the holder must carry out exploration programs and studies for the purpose for which the EPM was granted and for no other purpose, that the holder must carry out improvement restoration to the EPM, that the holder must remove all plant and equipment prior to termination of the term of the EPM and that subject to the Minister's discretion, the area of an EPM must be reduced by at least 50% after two years from the date of the grant of the EPM, and for each year after that, a further 50% of the remaining area must be relinquished.

The holder of an EPM must make a submission identifying the blocks which the holder wishes to retain under the EPM at least 20 business days prior to the date on which relinquishment is to occur.

The holder of an EPM may transfer an EPM with the consent of the Minister.

#### 4.2 Environment

The *Environmental Protection Act 1994 (Qld)* (**EP Act**) regulates activities that are likely to have environmental impacts. Such activities are referred to in the EP Act as "environmentally relevant activities".

In respect of mining activities, an environmental authority is required to be obtained for the mining activities. The authority is referred to as an "Environmental Authority (Mining Activities)" and once obtained is deemed to be a licence for all of the environmentally relevant activities set out in the EP Act and its regulations which are carried out under the relevant mining tenement, provided those activities were described in the application for the authority. Activities that have not been applied for cannot be carried out as of right, such as crushing and screening material for construction purposes or chemical storage.

The specific activities to be described in an application for a particular project are naturally dependant on the nature and extent of that project. Applications for environmental authorities must be made to DERM and be accompanied by relevant supporting information.

Application fees and annual licensing fees are payable in respect of environmental authorities and conditions relating to monitoring, reporting and the provision of financial security for environmental performance can be imposed.

For exploration activities, in most instances, the environmental authority will require compliance with the Standard Environmental Conditions outlined in the Code of Environmental Compliance for Exploration and Mineral Development Projects (**Code**) (published by the former Environmental Protection Agency, now DERM). This means that the Standard Environmental Conditions in the Code must be complied with. If exploration activities cannot comply with the Standard Environmental Conditions, an application needs to be made to the DERM to change the conditions of the environmental authority.

Other permits may be required to conduct some activities to the extent that they are not regulated by the conditions of the environmental authority, even if they occur on a mining tenement. For example, a Riverine Protection Permit may be required under the *Water Act 2000* (Qld) to enable clearing of vegetation in a watercourse, or a Permit to Clear/Destroy required for listed wildlife under the *Nature Conservation Act 1992* (Qld) (**NCA**) and the associated regulations.

#### 4.3 National Parks and Excluded Land

Our searches have indicated that there are no exclusions applying to the Tenements.

---

### 5. ABORIGINAL HERITAGE

There may be areas or objects of Aboriginal heritage located on the Tenements.

We have not undertaken searches to ascertain if any Aboriginal sites or objects have been registered in the vicinity of the Tenements, as there is no obligation under the relevant legislation to register sites or objects. Furthermore, the exact location of Aboriginal sites may not necessarily be ascertained from these searches.

The Company must ensure that it does not breach the Commonwealth and applicable State legislation relating to Aboriginal heritage as set out below. To ensure that it does not contravene such legislation, it would be prudent for the Company (and it would accord with industry practice and Aboriginal expectations) to conduct heritage surveys to determine if any Aboriginal sites or objects exist within the area of the Tenements. Any interference with these sites or objects must be in strict conformity with the provisions of the relevant

legislation. It may also be necessary for the Company to enter into separate arrangements with the traditional owners of the sites.

## 5.1 Commonwealth Legislation

The *Aboriginal and Torres Strait Islander Heritage Protection Act 1984* (Cth) (**Commonwealth Heritage Act**) is aimed at the preservation and protection of any Aboriginal areas and objects that may be located on the Tenements.

Under the Commonwealth Heritage Act, the Minister for Aboriginal Affairs may make interim or permanent declarations of preservation in relation to significant Aboriginal areas or objects, which have the potential to halt exploration activities. Compensation is payable by the Minister for Aboriginal Affairs to a person who is, or is likely to be, affected by a permanent declaration of preservation.

It is an offence to contravene a declaration made under the Commonwealth Heritage Act.

## 5.2 Queensland Legislation

The *Aboriginal Cultural Heritage Act 2003* (Qld) (**ACH Act**) commenced on 16 April 2004. This legislation provides for the recognition, protection and conservation of Aboriginal cultural heritage. The Tenement holders have a duty of care to protect Aboriginal cultural heritage when carrying out their activities. The ACH Act requires the Tenement holders to liaise with the Aboriginal party for the area. The Aboriginal party is determined in accordance with the criteria set out under sections 34 and 35 of the ACH Act.

The Tenement holder's duty of care may be complied with in a number of ways including either:

- (a) entering into a voluntary cultural heritage management agreement pursuant to section 23(3)(a)(iii) of the ACH Act with the Aboriginal party;
- (b) developing and registering an approved Cultural Heritage Management Plan pursuant to section Part 7 of the ACH Act with the Aboriginal party for the particular area;
- (c) entering into an Indigenous Land Use Agreement (**ILUA**) or another type of native title agreement that addresses the issues of cultural heritage;
- (d) where applicable, complying with the Native Title Protection Conditions (**NTPCs**); or
- (e) at minimum, adhering to the Duty of Care Guidelines (which form part of the ACH Act).

The tenement holder is required to comply with this legislation irrespective of whether native title exists on the land.

---

## 6. NATIVE TITLE

### 6.1 Introduction

This section of the Report examines the effect of native title on the Tenements.

The existence of native title rights held by indigenous Australians was first recognised in Australia in 1992 by the High Court in the case *Mabo v. Queensland (no.2)* (1992) 175 CLR 1 (**Mabo no.2**).

Mabo no. 2 held that certain land tenure existing as at the date of that case, including mining tenements, were granted or renewed without due regard to native title rights, were invalid.

As a result of Mabo no. 2, the *Native Title Act 1993* (Cth) (**NTA**) was passed to:

- (a) provide a process for indigenous people to lodge claims for native title rights over land, for those claims to be registered by the National Native Title Tribunal (**NNTT**) and for the Courts to assess native title claims and determine if native title rights exist. Where a Court completes the assessment of a native title claim, it will issue a native title determination that specifies whether or not native title rights exist;
- (b) provide (together with associated State legislation) that any land tenures granted or renewed before 1 January 1994 were valid despite Mabo no. 2. This retrospective validation of land tenure was subsequently extended by the NTA to include freehold and certain leasehold (including pastoral leases) granted or renewed before 23 December 1996; and
- (c) provide that an act that may affect native title rights (such as the grant or renewal of a mining tenement) carried out after 1 January 1994 (a **Future Act**) must comply with certain requirements for the Future Act to be valid under the NTA. These requirements are called the **Future Act Provisions**.

The Future Act Provisions are summarised in Section 8.2 below, following which the Report identifies:

- (a) native title claims and determinations that are registered against the Tenements (see Section 8.3);
- (b) Tenements which have been granted after 23 December 1996 and as such will need to have been granted following compliance with the Future Act Provisions to be valid under the NTA. This Report assumes that the Future Act Provisions have been complied with in relation to these Tenements (see Section 6.4); and
- (c) Tenements which are yet to be granted and which may need to comply with the Future Act Provisions in order to be valid under the NTA (see Section 6.4).

Note that the grant of a Tenement does not need to comply with the Future Act Provisions if in fact native title has never existed over the land covered by the Tenement, or has been validly extinguished prior to the grant of the Tenement. We have not undertaken the extensive research needed to determine if in fact native title does not exist, or has been validly extinguished in relation to the Tenements.

Unless it is clear that native title has been extinguished (eg in relation to freehold land), the usual practice of the State is to comply with the Future Act Provisions when granting a Tenement. This ensures the grant will be valid in the event a court determines that native title rights do exist over the land subject to the Tenement and as such, the Future Act Provisions apply.

Where a Tenement has been retrospectively validated or validly granted under the NTA, the rights under the Tenement prevail over any inconsistent native title rights.

## 6.2 Future Act Provisions

The Future Act Provisions vary depending on the Future Act to be carried out. In the case of the grant of a mining tenement, typically there are three alternatives: the Right to Negotiate, an Indigenous Land Use Agreement (ILUA) and the Expedited Procedure. These are summarised below.

### Right to Negotiate

The Right to Negotiate involves a formal negotiation between the State, the applicant for the tenement and any registered native title claimants and holders of native title rights. The first step in the Right to Negotiate process is for the tenement(s) to be notified in accordance with section 29 NTA for four (4) months. During this time, the applicant must negotiate in good faith and attempt to reach an agreement with any registered native title claimants (who have a native title claim that overlaps the tenement application) (**native title party**).

During the four month notification period, if a party lodges a native title determination application within three (3) months of the notification date and the application is registered by the NNTT within four (4) months of the notification date, the newly registered native title claimant will be eligible to participate in the Right to Negotiate process and the applicant must include them in their negotiations.

The aim is for the parties to agree to terms on which the tenement can be granted. If an agreement is reached between the parties, the terms will be documented into a section 31 deed (which the State, applicant and native title party are parties to) and an ancillary agreement (a commercial agreement between the applicant and native title party only). The ancillary agreement will detail any financial and/or non-financial benefits that the applicant has agreed to pay to the native title party in return for the native title party's consent to the grant of the tenement. The ancillary agreement may also include conditions that will apply to activities carried out on the tenement (eg in relation to heritage surveys, access to land, environmental management etc).

If agreement is not reached to enable the tenement to be granted, the matter may be referred to arbitration before the NNTT, which has six (6) months to decide whether the tenement can be granted and if so, on what conditions. The NNTT requires the parties to have had at least 6 months of negotiations before it will accept a referral for arbitration.

### ILUA

An ILUA is a voluntary contractual arrangement regarding the management of land and water governed by the NTA. The NTA sets out particular steps that must be followed before an ILUA can be registered by the NNTT. Until the ILUA is registered, the consent provided by the native title group to the Future Act is not valid.

An ILUA must be executed by the registered native title claimant(s) for a relevant area. If the ILUA makes provision for extinguishment, the State must be a party to the ILUA. Otherwise, it is optional as to whether the State needs to be a party.

An ILUA must set out the terms on which a tenement can be granted, including consent by the native title group to the Future Act. An ILUA is very flexible in terms of its content and may include conditions such as regarding: activities that may be carried out within the tenement, financial and non-financial benefits payable, cultural heritage obligations, access to land, communication and any other terms the parties agree to. To ensure that the obligations set out under the ILUA pass to a future transferee of the tenement, the ILUA should include an assignment clause specifying the conditions of assignment of the ILUA upon transfer of the tenement.

Once an ILUA is agreed and registered, it binds all native title holders in relation to the land and water concerned, and not merely those who are parties to the ILUA.

### **Expedited Procedure**

The NTA establishes a simplified process for the carrying out of a Future Act that is unlikely to adversely affect native title rights (**Expedited Procedure**). The grant of a tenement can occur under the Expedited Procedure if:

- (a) the grant will not interfere directly with the carrying on of the community or social activities of the persons who are the holders of native title in relation to the land;
- (b) the grant is not likely to interfere with areas or sites of particular significance, in accordance with their traditions, to the persons who are holders of native title in relation to the land; and
- (c) the grant is not likely to involve major disturbance to any land or waters concerned or create rights whose exercise is likely to involve major disturbance to any land.

If the State considers the above criteria are satisfied, it commences the Expedited Procedure by giving notice of the proposed grant of the tenement in accordance with the NTA. Notification will last for a period of four (4) months. During the four (4) month notification period, if a party lodges a native title determination application within three (3) months of the notification date and the application is registered by the NNTT within four (4) months of the notification date, the newly registered native title claimant will be eligible to participate in the Expedited Procedure and the applicant must attempt to reach an agreement in good faith.

If an existing registered native title claim overlaps a tenement application (or is registered within the four (4) month notification period), there are a number of outcomes under the Expedited Procedure:

- (a) a section 31 deed and ancillary agreement may be reached between the parties and the tenement application can proceed to grant subject to compliance with the relevant legislation;
- (b) the parties may not be able to reach agreement and an objection is lodged by the native title party within four (4) months of the notification period; or
- (c) the parties may not reach agreement and the native title party does not lodge an objection within four (4) months of the notification period.

If there is no objection lodged by a registered native title claimant or a native title holder within four (4) months of the notification date, the State may grant the Tenement subject to the NTPCs.

If one or more registered native title claimants or native title holders object within that four (4) month notice period, the NNTT must determine whether the grant is an act attracting the Expedited Procedure. If the NNTT determines that the Expedited Procedure applies, the State may grant the Tenement. Otherwise, the Future Act Provisions (eg Right to Negotiate or ILUA) must be followed before the Tenement can be granted.

The State of Western Australia currently follows a policy of granting prospecting and exploration licenses under the Expedited Procedure where the applicant has entered into a standard aboriginal heritage agreement with the relevant registered native title claimants and native title holders. The standard heritage agreement (and ancillary agreements) usually provide for payment of compensation by the applicant for the tenement and conditions that apply to activities carried out within the tenement.

### 6.3 Registered Native Title Claims and Determinations

Our searches indicate that the Tenements are subject to the following registered native title claims and determinations.

#### Queensland Tenements

| Tenement  | Native Title Claim | Native Title Determination |
|-----------|--------------------|----------------------------|
| EPM 14588 | QC98/10            | Nil                        |
| EPM 15517 | QC98/10            | Nil                        |

The status of the native title claims is summarised in Part II of the Schedule.

The native title claimants and holders of native title under the determinations are entitled to certain rights under the Future Act Provisions.

### 6.4 Validity of Tenements under the NTA

The sections below examine the validity of the Tenements under the NTA.

#### Tenements granted before 23 December 1996

Our searches indicate that none of the Tenements were granted before 1 January 1994.

Our searches indicate that none of the Tenements were granted after 1 January 1994 but before 23 December 1996.

#### Tenements granted after 23 December 1996

Our searches indicate that the following Tenements were granted after 23 December 1996.

| Tenement  | Date of Grant |
|-----------|---------------|
| EPM 14588 | 11/03/2005    |
| EPM 15517 | 31/01/2008    |

We have assumed that these Tenements were granted in accordance with the Future Act Provisions and as such are valid under the NTA.

#### **Tenements renewed after 23 December 1996**

To the extent a renewal of a mining tenement does not fall within an 'excluded mining act' under section 26D NTA, the renewal of a mining tenement must comply with the Future Act Provisions in order to be valid under the NTA.

A renewal is considered an 'excluded mining act' under section 26D NTA and exempt from the Future Act Provisions where the renewal is in respect to either a mining tenement that was validly granted on or before 23 December 1996 or a mining tenement that was granted in accordance with the Future Act Provisions (that was not invalid to any extent under section 28 NTA) and the following criteria are satisfied:

- (a) the area to which the mining tenement applies is not extended;
- (b) the term of the renewed mining tenement is not longer than the term of the old mining tenement; and
- (c) the rights to be created are not greater than the rights conferred by the old mining tenement.

In such cases, the mining tenement can be renewed without complying with the Future Act Provisions.

Our searches indicate that none of the Tenements have been renewed since their grant.

To the extent that the future renewals of Tenements do not fall within the exceptions outlined in section 26D NTA, the Tenement holder will need to comply with the Future Act Provisions. The registered native title claimants and holders of native title identified in Section 6.3 of this Report will need to be involved as appropriate under the Future Act Provisions.

Our searches indicate that the following Tenements are subject to an application for renewal:

| Tenement  | Date renewal lodged |
|-----------|---------------------|
| EPM 14588 | 24/02/2010          |

#### **Valid grant of Applications for Tenements**

To the extent that the underlying tenure of the Tenement applications has not extinguished native title, the Tenement applicant must comply with the Future Act Provisions prior to the grant of the Tenement applications.

Our searches indicate that none of the Tenements were granted before 1 January 1994.

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**7. QUALIFICATIONS AND ASSUMPTIONS**

This Report is subject to the following qualifications, assumptions and exclusions:

- (a) we have assumed the accuracy and completeness of all Tenement searches, register extracts and other information or responses which were obtained from the relevant department or authority including the NNTT;
- (b) this Report does not cover any third party interests, including encumbrances, in relation to the Tenements that are not apparent from our searches and the information provided to us;
- (c) we have not undertaken any discussions with any governmental department regarding the standing of any of the Tenements. Unless apparent from our report, we express no opinion in terms of the current standing of any of the Tenements;
- (d) we have assumed that any agreements provided to us in relation to the Tenements are authentic, were within the powers and capacity of those who executed them, were duly authorised, executed and delivered and are binding on the parties to them;
- (e) with respect to the granting of the Tenements, we have assumed that the State and the applicant for the Tenements complied with the applicable Future Act Provisions;
- (f) we have not undertaken detailed searches of the Queensland Cultural Heritage European/Non Indigenous Register for the Tenements;
- (g) we have assumed the accuracy and completeness of any instructions or information which we have received from the Company or any of its officers, agents and representatives;
- (h) we have not undertaken searches of the real properties underlying the Tenements to provide details of the real properties, of the impact of any notices issued, or of any crown land reservations underlying the Tenements. The term "reservations" includes any areas of land within the Queensland Tenements which may not be available to the holder to conduct activities such as protected land areas described in section 14 of the NCA;
- (i) unless apparent from our searches or the information provided to us, we have assumed compliance with the requirements necessary to maintain a Tenement in good standing;
- (j) we have not considered or examined non-legal environmental matters such as environmental requirements that do not directly affect the standing of the Tenements;
- (k) references in the Schedule to any area of land are taken from details shown on searches obtained from the relevant department. It is not possible to verify the accuracy of those areas without conducting a survey; and

- (l) the information in the Schedule is accurate as at the date the relevant searches were obtained. We cannot comment on whether any changes have occurred in respect of the Tenements between the date of the searches and the date of the Prospectus.

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**8. CONSENT**

This report is given solely for the benefit of the Company and the directors of the Company in connection with the issue of the Prospectus and is not to be relied on or disclosed to any other person or used for any other purpose or quoted or referred to in any public document or filed with any government body or other person without our prior consent.

Yours faithfully



**STEINEPREIS PAGANIN**

## PART I

### TENEMENT SCHEDULE

| TENEMENT  | REGISTERED HOLDER        | SHARES HELD | GRANT DATE | EXPIRY DATE | RENEWAL APPLICATION LODGED | AREA SIZE (Blocks) | ANNUAL RENT (NEXT RENTAL YEAR) | MINIMUM ANNUAL EXPENDITURE                    | ENCUMBRANCES/ DEALINGS | NATIVE TITLE CLAIMS / DETERMINATIONS / ILUAs | NOTES |
|-----------|--------------------------|-------------|------------|-------------|----------------------------|--------------------|--------------------------------|-----------------------------------------------|------------------------|----------------------------------------------|-------|
| EPM 14588 | Rivera Resources Limited | 100%        | 11/03/2005 | 10/03/2010  | Yes                        | 12                 | \$1,588.80                     | Year 5 (11/03/2009 to 10/03/2010) \$100,000   | -                      | QC98/10, Q12007/007                          | 1, 3  |
| EPM 15517 | Rivera Resources Limited | 100%        | 31/01/2008 | 30/01/2013  | N/A                        | 3                  | \$397.20                       | Year 4-5 (31/01/2011 to 30/01/2013) \$100,000 | -                      | QC98/10, Q12007/007, Q12002/042              | 2, 3  |

#### Key to Tenement Schedule

EPM – Exploration Licence under Mineral Resources Act (Qld).

Each granted EPM is subject to a minimum yearly work programme established by the Department and outlined in the title document for each EPM.

Notes:

- Reporting for this tenement is not up to date. The Annual Report and Statement of Expenditure was due on 11 April 2010.
- Reporting for this tenement is not up to date. The Annual Report and Statement of Expenditure was due on 31 February 2010.
- "Rivera Resources Limited" has undergone a change of name to "South American Ferro Metals Limited".

All of the native title claims listed in the Schedule have been accepted and entered on the Register of Native Title Claims. Please refer to Part II of this Report for the status of the native title claims.

Unless otherwise indicated, capitalised terms have the same meaning given to them in the Prospectus.

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**PART II – STATUS OF NATIVE TITLE CLAIMS**

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**DETAILS OF NATIVE TITLE CLAIMS**

| TRIBUNAL NUMBER | FEDERAL COURT NUMBER | APPLICATION NAME | REGISTERED | IN MEDIATION | STATUS |
|-----------------|----------------------|------------------|------------|--------------|--------|
| QC98/10         | QUD6230/98           | Jangga People    | 02/04/1998 | Yes          | Active |

**DETAILS OF INDIGENOUS LAND USE AGREEMENTS (ILUAs)**

| TRIBUNAL NUMBER | NAME          | REGISTRATION DATE |
|-----------------|---------------|-------------------|
| QI2007/007      | Jangga People | 11/02/2010        |
| QI2002/042      | Twin Hills    | 03/11/2003        |

## 14. RIGHTS ATTACHING TO SECURITIES

### 14.1 Rights attaching to Shares

The rights, privileges and restrictions attaching to Shares can be summarised as follows:

#### (a) General Meetings

Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with Section 249D of the Corporations Act and the Constitution of the Company.

#### (b) Voting Rights

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at general meetings of shareholders or classes of shareholders:

- (i) each shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- (ii) on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and
- (iii) on a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid shares shall have such number of votes as bears the same proportion to the total of such shares registered in the shareholder's name as the amount paid (not credited) bears to the total amounts paid and payable (excluding amounts credited).

#### (c) Dividend Rights

Subject to the rights of persons (if any) entitled to shares with special rights to dividend the Directors may declare a final dividend out of profits in accordance with the Corporations Act and may authorise the payment or crediting by the Company to the shareholders of such a dividend. The Directors may authorise the payment or crediting by the Company to the shareholders of such interim dividends as appear to the Directors to be justified by the profits of the Company. Subject to the rights of persons (if any) entitled to shares with special rights as to dividend all dividends are to be declared and paid according to the amounts paid or credited as paid on the shares in respect of which the dividend is paid. Interest may not be paid by the Company in respect of any dividend, whether final or interim.

#### (d) Winding-Up

If the Company is wound up, the liquidator may, with the authority of a special resolution of the Company, divide among the shareholders in

kind the whole or any part of the property of the Company, and may for that purpose set such value as he considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the shareholders or different classes of shareholders. The liquidator may, with the authority of a special resolution of the Company, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no shareholder is compelled to accept any shares or other securities in respect of which there is any liability. Where an order is made for the winding up of the Company or it is resolved by special resolution to wind up the Company, then on a distribution of assets to members, shares classified by ASX as restricted securities at the time of the commencement of the winding up shall rank in priority after all other shares.

(e) **Transfer of Shares**

Generally, shares in the Company are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act or the Listing Rules.

(f) **Variation of Rights**

Pursuant to Section 246B of the Corporations Act, the Company may, with the sanction of a special resolution passed at a meeting of shareholders vary or abrogate the rights attaching to shares.

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class), whether or not the Company is being wound up may be varied or abrogated with the consent in writing of the holders of three-quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of that class.

## 14.2 Terms of Performance Shares

Pursuant to the Share Sale Agreement, the Company will issue Class A, B and C Performance Shares to the Vendors on the following terms:

- (a) **(Performance Shares):** A "Performance Share" is a share in the capital of SAFM.
- (b) **(General Meetings):** A Performance Share shall confer on the holder (**Holder**) the right to receive notices of general meetings and financial reports and accounts of SAFM that are circulated to shareholders. Holders have the right to attend general meetings of shareholders of SAFM.
- (c) **(No Voting Rights):** A Performance Share does not entitle the Holder to vote on any resolutions proposed at a general meeting of shareholders of SAFM.
- (d) **(No Dividend Rights):** A Performance Share does not entitle the Holder to any dividends.

- (e) **(Rights on Winding Up):** The Holder is not entitled to participate in the surplus assets or profits of SAFM in a winding up.
- (f) **(Not Transferable):** A Performance Share is not transferable except where:
  - (i) the Holder is a company; and
  - (ii) the members of the Holder:
    - (A) pass a special resolution to wind up the Holder in accordance with Section 491 of the Corporations Act; or
    - (B) unanimously consent to the voluntary deregistration of the Holder for the purpose of Section 601AA of the Corporations Act,
  - and provided that:
  - (iii) upon the special resolution or unanimous consent being obtained, the Holder may only transfer the Performance Shares to the persons that are registered as members of the Holder on the date of issue of the Performance Shares (**Record Date**) in proportion to their interests in the Holder on the Record Date; and
  - (iv) this exception only permits the distribution of the Performance Shares by the initial Holder of those shares.
- (g) **(Reorganisation of Capital):** If at any time the issued capital of SAFM is reconstructed, all rights of a Holder will be changed to the extent necessary to comply with the applicable ASX Listing Rules at the time of reorganisation.
- (h) **(Application to ASX):** A Performance Share will not be quoted on ASX. However, upon conversion of a Performance Share into fully paid ordinary shares (Shares) in accordance with clause (j), SAFM must within seven (7) days after the conversion, apply for the official quotation of the Shares arising from the conversion on ASX.
- (i) **(No Other Rights):** A Performance Share gives the Holder no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

#### Conversion of the Performance Shares:

- (j) **(Conversion):** Subject to clause (k) and (l) below, a Performance Share will convert into one Share upon the satisfaction of the relevant milestone as set out in the following table (**Milestone**):

| Class of Performance Share | Milestone                                                                                     |
|----------------------------|-----------------------------------------------------------------------------------------------|
| Class A                    | The production run rate from the Project over a continuous three (3) month period reaching an |

|         |                                                                                                                                                                                                                                                                                          |
|---------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | equivalent of 800,000 tonnes per annum.                                                                                                                                                                                                                                                  |
| Class B | The Company identifying a JORC compliant resource of iron ore on the Project reaching or exceeding 50,000,000 tonnes.                                                                                                                                                                    |
| Class C | <p>(i) The Company identifying a JORC compliant resource of iron ore on the Project reaching or exceeding 140,000,000 tonnes; or</p> <p>(ii) the production run rate over a continuous twelve (12) month period reaching 800,000 tonnes per annum,</p> <p>whichever may occur first.</p> |

- (k) **(Compliance with law):** The conversion of the Performance Shares is subject to compliance at all times with the Corporations Act and the Listing Rules of ASX.
- (l) **(Conversion if Milestone not achieved)** If the Milestone is not achieved within three (3) years of issue of the Performance Shares, all Performance Shares held by a Holder will convert into one (1) Share.
- (m) **(Conversion Procedure)** The Purchaser will issue the Holder with a new holding statement for the Shares as soon as practicable following the conversion of a Performance Share into Shares in accordance with clause (j) or (l).
- (n) **(Ranking of Shares)** The Shares into which the Performance Shares will convert will rank pari passu in all respects with existing Shares.

## 15. ADDITIONAL INFORMATION

### 15.1 Summary of the Share Sale Agreement

The material terms and conditions of the Share Sale Agreement are as follows:

- (a) **(Consideration)**: in consideration for the acquisition of SAFM Holdings, SAFM shall issue to the Vendors:
  - (i) 83,977,967 Shares;
  - (ii) 83,977,967 Class A Performance Shares;
  - (iii) 83,977,967 Class B Performance Shares; and
  - (iv) 83,977,967 Class C Performance Shares,
 (together, the **Consideration Shares**);
- (b) **(Conditions Precedent)**: the Share Sale Agreement is conditional upon the following material conditions:
  - (i) SAFM obtaining all necessary Shareholder approvals required by the Corporations Act and the Listing Rules in relation to the Acquisition;
  - (ii) ASX approving the terms of the Performance Shares;
  - (iii) SAFM receiving a letter from ASX confirming that ASX will grant conditional re-quotation of the Shares on the Official List, on terms acceptable to SAFM and the Vendors;
  - (iv) SAFM giving notice to the Vendors' representative confirming that it is satisfied that no event, change, condition, matter, result or circumstance (or any combination of events, changes, conditions, matters, results or circumstances):
    - (A) has occurred;
    - (B) been disclosed; or
    - (C) become known to SAFM;
 including any breach of a warranty between the date of the Share Sale Agreement and completion of the Share Sale Agreement, which, in the reasonable opinion of SAFM, will have, could reasonably be expected to have, has had, or has evidenced that there has been, a material adverse effect in respect of SAFM Holdings or SAFM Brazil; and
  - (v) between the date of execution and completion of the Share Sale Agreement, no prescribed event set out in section 652C of the Corporations Act occurring in respect of SAFM, SAFM Holdings or SAFM Brazil.

If these conditions are not satisfied by 5pm (WST) on 31 October 2010, the Share Sale Agreement shall terminate and the parties will be released from their obligations there under;

- (c) **(Appointment of Directors):** on or prior to completion of the Share Sale Agreement, the Company must procure the appointment of Stephen Turner and Stephen Fabian as directors of the Company; and
- (d) **(Escrow):** the Consideration Shares may be escrowed for the applicable escrow period set out in the ASX Listing Rules, which ranges between 12 months and 24 months from the date of issue of the Consideration Shares, depending on the nature of the Vendor.

## 15.2 Lead Manager Mandate with Patersons Securities Limited

The Company has entered into a mandate with Patersons Securities Limited (**Patersons**) pursuant to which Patersons has agreed to be the Lead Manager of the Offer.

In the course of its appointment, Patersons will assist the Company with determining the structure of the Offer, managing the marketing of the Offer, and providing strategic market advice in relation to the Offer.

In consideration for the services to be provided by Patersons, the Company has agreed to pay Patersons:

- (a) a corporate advisory fee of \$40,000;
- (b) a lead manager fee of 1% of the total amount raised under the Offer; and
- (c) a placement fee of 4% of the amount raised under the Offer.

## 15.3 Managing Director Service Agreement

By letter agreement dated 16 September 2010, Stephen Fabian confirmed his commitment to accept the role of Managing Director of the Company. The Company will pay Mr Fabian 15,000 Euros per month as remuneration for his role as Managing Director. Mr Fabian's contract with the Company as Managing Director may be terminated by either party by giving one month's notice.

## 15.4 Agreement with Previous Vendor

SAFM Brazil has entered into an agreement with the previous owner of the Project. The material terms of this agreement are set out in Section 12 of this Prospectus. The Company is aware that the balance of the final instalment of the consideration payable under this agreement (of US\$2,291,250) is due in the near future. The Company intends to satisfy the payment of this amount principally out of existing cash reserves. Any additional amount required to meet this instalment will be applied from the amount allocated to working capital in the use of proceeds from this Offer (as set out in Section 3.6).

## 15.5 Interests of Directors

Other than as set out below or elsewhere in this Prospectus, no Director or proposed Director holds, or has held within the 2 years preceding lodgement of this Prospectus with the ASIC, any interest in:

- (a) the formation or promotion of the Company;
- (b) any property acquired or proposed to be acquired by the Company in connection with:
  - (i) its formation or promotion; or
  - (ii) the Offer; or
- (c) the Offer,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to a Director or proposed Director:

- (a) as an inducement to become, or to qualify as, a Director; or
- (b) for services provided in connection with:
  - (i) the formation or promotion of the Company; or
  - (ii) the Offer.

### **Remuneration**

The Constitution provides that the remuneration of Non Executive Directors will be not more than the aggregate fixed sum initially set by the Constitution and subsequently varied by ordinary resolution of Shareholders in general meeting. The current aggregate fixed sum permitted as remuneration of Non Executive Directors has been set at an amount not to exceed \$300,000 per annum.

In addition, a Director may be paid fees or other amounts as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director.

Directors are also entitled to be paid reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors.

The Directors have a relevant interest in the securities of the Company, and have been paid remuneration (inclusive of superannuation) by the Company, as set out in the table below:

| Director                       | Shares     | Options <sup>1</sup> | Performance Shares <sup>2</sup> |
|--------------------------------|------------|----------------------|---------------------------------|
| Philip Re                      | 1,705,000  | 852,500              | -                               |
| Paul Lloyd                     | 950,000    | 475,000              | -                               |
| Nick Revell                    | 400,000    | 200,000              | -                               |
| Mark Foster                    | 691,000    | 345,500              | -                               |
| Terence Willstead <sup>3</sup> | 683,937    | -                    | 2,051,811                       |
| Stephen Fabian <sup>4</sup>    | 11,149,701 | -                    | 33,449,103                      |
| Stephen Turner <sup>5</sup>    | 15,422,453 | -                    | 46,267,359                      |

Notes:

- Options exercisable at 20 cents on or before 31 December 2014.
- Comprised equally of Class A, Class B, and Class C Performance Shares.
- These securities will be issued to Paternat Pty Ltd (a company in which Mr Willsteed has an interest) at completion of the Share Sale Agreement.
- These securities will be issued to Massif Limited (a company in which Mr Fabian has an interest) at completion of the Share Sale Agreement.
- These securities will be issued to Afro Pacific Pty Ltd, Africa Pacific Capital (HK) Limited and Tin Zone Holdings Limited (companies in which Mr Turner has an interest) at completion of the Share Sale Agreement.

| Director                 | Remuneration<br>FY2009 | Remuneration<br>FY2010 |
|--------------------------|------------------------|------------------------|
| Philip Re <sup>1</sup>   | \$27,250               | \$32,700               |
| Paul Lloyd <sup>2</sup>  | \$27,250               | \$32,700               |
| Nick Revell <sup>3</sup> | \$27,250               | \$32,700               |
| Mark Foster <sup>4</sup> | \$27,250               | \$32,700               |
| Terence Willsteed        | -                      | -                      |
| Stephen Fabian           | -                      | -                      |
| Stephen Turner           | -                      | -                      |

Notes:

- Parkinson Corporate Pty Ltd, a company of which Mr Re is a director, receives fees from the Company for the provision of corporate advisory and company secretarial services. In the 24 months preceding the lodgement of this Prospectus with ASIC, the Company has paid Parkinson Corporate Pty Ltd a total of \$355,765.
- Coral Brook Pty Ltd, a company associated with Mr Lloyd, has an interest and receives fees from the Company for the provision of consulting services. In the 24 months preceding the lodgement of this Prospectus with ASIC, the Company has paid Coral Brook Pty Ltd a total of \$40,241.
- Ruby Rich Pty Ltd, a company in which Mr Revell has an interest, receives fees from the Company for the provision of geological services. In the 24 months preceding the lodgement of this Prospectus with ASIC, the Company has paid Ruby Rich Pty Ltd a total of \$3,500.
- Steinepreis Paganin, a firm of which Mr Foster is a partner, provides legal advice to the Company. In the 24 months preceding the lodgement of this Prospectus with ASIC, the Company has paid Steinepreis Paganin a total of \$97,626.

## 15.6 Interests of Experts and Advisers

Other than as set out below or elsewhere in this Prospectus, no:

- person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of the Company; or
- underwriter (but not a sub-underwriter) to the issue or a financial services licensee named in this Prospectus as a financial services licensee involved in the issue,

holds, or has held within the 2 years preceding lodgement of this Prospectus with the ASIC, any interest in:

- (a) the formation or promotion of the Company;
- (b) any property acquired or proposed to be acquired by the Company in connection with:
  - (i) its formation or promotion; or
  - (ii) the Offer; or
- (c) the Offer,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of these persons for services provided in connection with:

- (a) the formation or promotion of the Company; or
- (b) the Offer.

Patersons Securities Limited has acted as the Lead Manager in relation to the Offer. The Company estimates it will pay Patersons Securities Limited a total of \$790,000 (excluding GST) for these services, based on the Offer being fully subscribed. During the 24 months preceding lodgement of this Prospectus with the ASIC, Patersons Securities Limited has not received any fees from the Company.

SRK Consulting (Australasia) Pty Ltd has acted as Independent Geologist in relation to the Ponto Verde Project and has prepared the Independent Geologist's Report, which is included in Section 8 of this Prospectus. The Company estimates it will pay SRK Consulting (Australasia) Pty Ltd a total of \$15,000 (excluding GST) for these services. During the 24 months preceding lodgement of this Prospectus with the ASIC, SRK Consulting (Australasia) Pty Ltd has received consulting fees of approximately \$83,146 from the Company.

Coffey Consultoria e Servicos Ltda (**Coffey Mining**) has acted as Independent Technical Expert in relation to the Ponto Verde Project and has prepared the Independent Technical Report, which is included in Section 9 of this Prospectus. The Company estimates it will pay Coffey Mining a total of \$30,000 (excluding GST) for these services. During the 24 months preceding lodgement of this Prospectus with the ASIC, Coffey Mining has not received any fees from the Company.

Malcolm Castle has acted as Independent Geologist in relation to the Three Sisters Project and has prepared the Independent Geologist's Report, which is included in Section 10 of this Prospectus. The Company estimates it will pay Malcolm Castle a total of \$5,000 (excluding GST) for these services. During the 24 months preceding lodgement of this Prospectus with the ASIC, Malcolm Castle has not received any fees from the Company.

Bentleys has acted as Investigating Accountant and has prepared the Investigating Accountant's Report, which is included in Section 11 of this Prospectus. The Company estimates it will pay Bentleys a total of \$15,000 (excluding GST) for these services. During the 24 months preceding lodgement of this Prospectus with the ASIC, Bentleys has received fees from the Company in the amount of \$32,900.

FFA Legal has prepared the Solicitor's Report on Brazilian tenements, which is included in Section 12 of this Prospectus. The Company estimates it will pay FFA Legal \$7500 (excluding GST) for these services. Subsequently, fees will be charged in accordance with normal charge out rates. During the 24 months preceding lodgement of this Prospectus with the ASIC, FFA Legal has not received any fees from the Company.

Steinepreis Paganin (a legal firm of which Mark Foster is a partner) has acted as the solicitors to the Company in relation to the Offer and has prepared the Solicitor's Report on Australian tenements, which is included in Section 13 of this Prospectus. The Company estimates it will pay Steinepreis Paganin \$37,500 (excluding GST) for these services. Subsequently, fees will be charged in accordance with normal charge out rates. During the 24 months preceding lodgement of this Prospectus with the ASIC, Steinepreis Paganin has received fees from the Company in the amount of \$97,626 (excluding GST and disbursements).

## 15.7 Consents

Each of the parties referred to in this Section:

- (a) does not make, or purport to make, any statement in this Prospectus other than those referred to in this Section; and
- (b) to the maximum extent permitted by law, expressly disclaim and take no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this Section.

Patersons Securities Limited has given, and at the time of lodgement of this Prospectus, has not withdrawn, its consent to be named as Lead Manager to the offer of securities under this Prospectus, in the form and context in which it is named. Patersons Securities Limited was not involved in the preparation of any part of this Prospectus and did not authorise or cause the issue of this Prospectus. Patersons Securities Limited makes no express or implied representation or warranty in relation to South American Ferro Metals Limited, this Prospectus or the offer and does not make any statement in this Prospectus, nor is any statement in it based on any statement made by Patersons Securities Limited. To the maximum extent permitted by law, Patersons Securities Limited expressly disclaims and takes no responsibility for any material in, or omission from, this Prospectus other than the reference to its name.

SRK Consulting (Australasia) Pty Ltd has given its written consent to being named as Independent Geologist in this Prospectus in relation to the Ponto Verde Project, to the inclusion of the Independent Geologist's Report (Ponto Verde Project) in Section 8 of this Prospectus in the form and context in which the report is included, and to the inclusion of those statements in Section 5 of this Prospectus attributable to it in the form and context in which they are included. SRK Consulting (Australasia) Pty Ltd has not withdrawn its consent prior to lodgement of this Prospectus with the ASIC.

Coffey Mining has given its written consent to being named as Independent Technical Expert in this Prospectus in relation to the Ponto Verde Project, to the inclusion of the Independent Technical Report (Ponto Verde Project) in Section 9 of this Prospectus and to the inclusion of those statements in Section 5 of this Prospectus attributable to it in the form and context in which they are included.

Coffey Mining has not withdrawn its consent prior to lodgement of this Prospectus with the ASIC.

Malcolm Castle has given his written consent to being named as Independent Geologist in this Prospectus in relation to the Three Sisters Project and to the inclusion of the Independent Geologist's Report (Three Sisters Project) in Section 10 of this Prospectus in the form and context in which the report is included. Malcolm Castle has not withdrawn his consent prior to lodgement of this Prospectus with the ASIC.

Bentleys has given its written consent to being named as auditor to the Company and Investigating Accountant in this Prospectus and to the inclusion of the Investigating Accountant's Report in Section 11 of this Prospectus in the form and context in which the information and report is included. Bentleys has not withdrawn its consent prior to lodgement of this Prospectus with the ASIC.

FFA Legal has given its written consent to being named as the Brazilian solicitors to the Company in this Prospectus and to the inclusion of the Solicitor's Report on Brazilian Tenements in Section 12 of this Prospectus. FFA Legal has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

Steinepreis Paganin has given its written consent to being named as the solicitors to the Company in this Prospectus and to the inclusion of the Solicitor's Report on Australian Tenements in Section 13 of this Prospectus. Steinepreis Paganin has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

### 15.8 Expenses of the Offer

The total expenses of the Offer (excluding GST) are estimated to be approximately \$430,000 for minimum subscription or \$950,000 for full subscription and are expected to be applied towards the items set out in the table below:

| Item of Expenditure             | Minimum<br>Subscription<br>(\$) | Full<br>Subscription<br>(\$) |
|---------------------------------|---------------------------------|------------------------------|
| ASIC fees                       | 2,068                           | 2,068                        |
| ASX fees                        | 11,450                          | 20,450                       |
| Broker Commissions              | 290,000                         | 790,000                      |
| Legal Fees                      | 45,000                          | 45,000                       |
| Independent Geologist's Fees    | 50,000                          | 50,000                       |
| Investigating Accountant's Fees | 15,000                          | 15,000                       |
| Printing and Distribution       | 5,000                           | 5,000                        |
| Miscellaneous                   | 11,482                          | 22,482                       |
| <b>TOTAL</b>                    | <b>430,000</b>                  | <b>950,000</b>               |

### 15.9 Litigation

As at the date of this Prospectus, the Company is not involved in any legal proceedings and the Directors are not aware of any legal proceedings pending or threatened against the Company.

### 15.10 Electronic Prospectus

Pursuant to Class Order 00/44, the ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic prospectus and electronic application form on the basis of a paper prospectus lodged with the ASIC, and the publication of notices referring to an electronic

prospectus or electronic application form, subject to compliance with certain conditions.

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please contact the Company and the Company will send you, for free, either a hard copy or a further electronic copy of this Prospectus or both. Alternatively, you may obtain a copy of this Prospectus from the website of the Company at [www.rivieraresources.com.au](http://www.rivieraresources.com.au).

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

#### **15.11 Financial Forecasts**

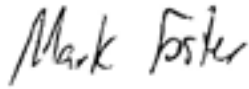
The Directors have considered the matters set out in ASIC Regulatory Guide 170 and believe that they do not have a reasonable basis to forecast future earnings on the basis that the operations of the Company are inherently uncertain. Accordingly, any forecast or projection information would contain such a broad range of potential outcomes and possibilities that it is not possible to prepare a reliable best estimate forecast or projection.

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**16. DIRECTORS' AUTHORISATION**

This Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with Section 720 of the Corporations Act, each Director has consented to the lodgement of this Prospectus with the ASIC.



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**Mark Foster**  
**Director**  
**For and on behalf of**  
**SOUTH AMERICAN FERRO METALS LIMITED**

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17. GLOSSARY

Where the following terms are used in this Prospectus they have the following meanings:

**\$** means an Australian dollar.

**Acquisition** means the acquisition by the Company of SAFM Holdings pursuant to the Share Sale Agreement.

**Application Form** means the application form attached to or accompanying this Prospectus relating to the Offer.

**ASIC** means Australian Shares & Investments Commission.

**ASX** means ASX Limited (ACN 008 624 691).

**ASX Listing Rules** means the official listing rules of ASX.

**Board** means the board of Directors as constituted from time to time.

**Closing Date** means the closing date of the Offer as set out in Section 3.2 of this Prospectus (subject to the Closing Date being extended or the Offer being closed early).

**Company** or **SAFM** means South American Ferro Metals Limited (ACN 128 806 977).

**Constitution** means the constitution of the Company.

**Corporations Act** means the Corporations Act 2001 (Cth).

**Directors** means the directors of the Company at the date of this Prospectus.

**Exposure Period** means the period of 7 days after the date of lodgement of the Original Prospectus, which period was extended by the ASIC by 7 days pursuant to Section 727(3) of the Corporations Act

**General Meeting** means the general meeting of Shareholders to consider, amongst other things, a change in nature and scale of the Company's activities and the issue of Shares the subject of the Offer.

**Notice of Meeting** means the notice of meeting convening the General Meeting, as released to ASX on 11 August 2010.

**Offer** means the offer of Shares pursuant to this Prospectus as set out in Section 4 of this Prospectus.

**Official List** means the official list of ASX.

**Official Quotation** means official quotation by ASX in accordance with the ASX Listing Rules.

**Option** means an option to acquire a Share.

**Option holder** means a holder of Options.

**Original Prospectus** means the prospectus dated 29 September 2010 issued by the Company and lodged with the ASIC on that date.

**Performance Shares** means the Class A, Class B, and Class C performance shares in the capital of the Company to be issued on the terms set out in Section 14.2 of this Prospectus.

**Project** means the Ponto Verde Iron Ore Project in Minas Gerais State, Southern Brazil.

**Prospectus** or **Replacement Prospectus** means this replacement prospectus.

**SAFM Brazil** means SAFM Mineracao Limitada, a company incorporated in Brazil.

**SAFM Holdings** means South American Ferro Metals Limited, a company incorporated in the British Virgin Islands.

**Share** means a fully paid ordinary share in the capital of the Company.

**Shareholder** means a holder of Shares.

**Share Sale Agreement** means the agreement in respect of the Acquisition, a summary of which is set out in Section 15.1 of this Prospectus.

**WST** means Western Standard Time as observed in Perth, Western Australia.

**South American Ferro Metals Limited – Share Offer  
Account  
C/- Patersons Securities Limited  
Level 23, Exchange Plaza  
2 The Esplanade  
PERTH WA 6000**

## GUIDE TO THE APPLICATION FORM

If an applicant has any questions on how to complete this Application Form, please telephone Patersons Securities Limited on (08)9263 1118.

### A. Application for Shares

The Application Form must only be completed in accordance with instructions included in Prospectus.

### B. Name of Applicant

Write the Applicant's FULL NAME. This must be either an individual's name or the name of a company. Please refer to the bottom of this page for the correct form of registerable title. Applications using the incorrect form of registerable title may be rejected.

### C. Name of Joint Applicants or Account Designation

If JOINT APPLICANTS are applying, up to three joint Applicants may register. If applicable, please provide details of the Account Designation in brackets. Please refer to the bottom of this page for instructions on the correct form of registerable title.

### D. Address

Enter the Applicant's postal address for all correspondence. If the postal address is not within Australia, please specify Country after City/Town.

### E. Contact Details

Please provide a contact name and daytime telephone number so that the Company can contact the Applicant if there is an irregularity regarding the Application Form.

### F. CHESS HIN or existing SRN Details

The Company participates in CHESS. If the Applicant is already a participant in this system, the Applicant may complete this section with their existing CHESS HIN. If the applicant is an existing shareholder with an Issuer Sponsored account, the SRN for this existing account may be used. Otherwise leave the section blank and the Applicant will receive a new Issuer Sponsored account and statement.

### G. Cheque Details

Make cheques payable to **"South American Ferro Metals Limited – Share Offer Account"** in Australian currency and cross them **"Not Negotiable"**. Cheques must be drawn on an Australian Bank. The amount of the cheque should agree with the amount shown on the Application Form.

### H. Declaration

This Application Form does not need to be signed. By lodging this Application Form and a cheque for the application money this Applicant hereby:

- (1) applies for the number of Shares specified in the Application Form or such lesser number as may be allocated by the Directors;
- (2) agrees to be bound by the constitution of the Company;
- (3) authorises the directors of the Company to complete or amend this Application Form where necessary to correct any errors or omissions;
- (4) acknowledges that he/she has received a copy of the Prospectus attached this Application Form or a copy of the Application Form before applying for the Shares; and
- (5) acknowledges that he/she will not provide another person with this Application Form unless it is attached to or accompanied by the Prospectus.

### CORRECT FORMS OF REGISTRABLE TITLE

Note that ONLY legal entities are allowed to hold securities. Application Forms must be in the name(s) of a natural person(s), companies or other legal entities acceptable to the Company. At least one full given name and the surname is required for each natural person. Application Forms cannot be completed by persons under 18 years of age. Examples of the correct form of registrable title are set out below.

| Type of Investor                                                                                          | Correct Form of Registration                                          | Incorrect Form of Registration                   |
|-----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|--------------------------------------------------|
| Individual Use given names in full, not initials                                                          | Mr John Alfred Smith                                                  | J A Smith                                        |
| Company Use the company's full title, not abbreviations                                                   | ABC Pty Ltd                                                           | ABC P/L or ABC Co                                |
| Joint Holdings Use full and complete names                                                                | Mr Peter Robert Williams & Ms Louise Susan Williams                   | Peter Robert & Louise S Williams                 |
| Trusts Use the trustee(s) personal name(s).                                                               | Mrs Susan Jane Smith <Sue Smith Family A/C>                           | Sue Smith Family Trust                           |
| Deceased Estates Use the executor(s) personal name(s).                                                    | Ms Jane Mary Smith & Mr Frank William Smith <Est John Smith A/C>      | Estate of late John Smith or John Smith Deceased |
| Minor (a person under the age of 18) Use the name of a responsible adult with an appropriate designation. | Mr John Alfred Smith <Peter Smith A/C>                                | Master Peter Smith                               |
| Partnerships Use the partners personal names.                                                             | Mr John Robert Smith & Mr Michael John Smith <John Smith and Son A/C> | John Smith and Son                               |
| Long Names.                                                                                               | Mr John William Alexander Robertson-Smith                             | Mr John W A Robertson-Smith                      |
| Clubs/Unincorporated Bodies/Business Names Use office bearer(s) personal name(s).                         | Mr Michael Peter Smith <ABC Tennis Association A/C>                   | ABC Tennis Association                           |
| Superannuation Funds Use the name of the trustee of the fund.                                             | Jane Smith Pty Ltd <Super Fund A/C>                                   | Jane Smith Pty Ltd Superannuation Fund           |