



20 June 2011

ASX Announcement

ASX Code: SFZ

Operations Update: Ponto Verde Iron Ore Project (Brazil)

- **Production at SAFM's flagship Ponto Verde Iron Ore Project is beginning to ramp up following steps to identify and address initial challenges**
- **Iron ore product qualities have improved through the extended use of ore blending**
- **Senior management has been expanded and strengthened to both prepare the Company for growth and ensure the production ramp up is safe, successful and sustainable**
- **Delivery of stockpiled ROM has continued to LGA and Finished Product sales have commenced. Current stock on site includes 370,000 tonnes ROM for LGA, 27,000 tonnes of Small Lump and 35,000 tonnes of Sinter Feed**
- **Staged resource drilling program has commenced, with Phase 1 focused on confirming an initial area of the mineral inventory (+50 million tonnes) to a JORC-compliant classification while also defining mineralisation adjacent to the plant area**
- **Project fundamentals remain sound with the Company targeting full permitted production rate of 1.5Mtpa in fourth quarter calendar 2011**

South American Ferro Metals Limited (ASX: SFZ) ("SAFM" or the "Company"), the only ASX-listed pure play iron ore producer in Brazil, provides an operations update for its flagship Ponto Verde Iron Ore Project.

Production Update

In May 2011, the mine operations moved to two shifts per day in order to ramp up production rates toward the ultimate 1.5Mtpa level. The Company will move to three shifts per day by the end of calendar 2011. While production rates have increased during the current quarter, due to the initial challenges outlined below, production is now expected to reach a rate of 60,000 tonnes per month during the September 2011 quarter, later than previously forecast. Steps are already in place to increase output further once this rate has been achieved.

The Project did encounter some initial start up challenges with senior personnel changes, higher-than-planned phosphorus levels in the products and mining contractor performance,



however these issues have been recognised and have either been addressed, or are currently in the process of being addressed.

One of the initial challenges with productivity levels from the plant was due to variable performance within the secondary crusher circuit. Focused operations have removed this variability with further secondary crusher debottlenecking underway. Although this plant upgrade work is not essential to reach the targeted 1.5Mtpa production rate, it is a relatively cost effective short-term program that will both further reduce production risks and provide future upside and optionality.

Concentrator Project Update

Initial design work on a concentration system for the mine's ore fines has also been completed by Brazilian consulting firm, Senior Consultants. Costing and sourcing of long lead items is underway with the final detailed design due at the end of June. Following this report, the project schedule and final costs will be defined with the project decision to be taken by the end of July 2011. Initial economics for the concentrator are very strong and, should the project progress as expected, commissioning is targeted for first quarter calendar 2012.

Further Mine Site Enhancements

Other on-site and operational changes that have been implemented include:

- Further focus on contractor effectiveness and increased site staff levels;
- Procurement of spare parts and additional maintenance planning (to minimise future plant stoppages);
- Opportunistic plant configuration and optimisation;
- Stock pile configuration and management work;
- Commissioning of site weigh bridge;
- Enhancement of the mine development/excavation plan; and
- Expansion to the plant water feed capability.

Ore Quality Update

While variability in ore quality was detected during mine start up, this has been addressed through blending of ore from multiple excavation sites within the mine. This approach is sustainable and has yielded consistent superior quality products.

Ongoing in-mine sampling and ore evaluation will result in further enhancement of final product quality.



Senior Management Update

In early June 2011, the Company announced senior management changes, including an acting Chief Operating Officer and Projects Manager. The strengthened management team will ensure the Company's production and expansion targets are met as effectively as possible.

The Board is confident that, with the backing of an appropriate and effective management team, SAFM's growth and ramp up in production can be achieved in a safe, successful and sustainable manner.

Resource Expansion Update

As stated in the Quarterly Report, the Company has appointed Coffey Mining to undertake the Exploration Program to confirm the Ponto Verde resource to JORC standard. Although this work has been delayed from earlier this year, a staged drilling program commenced in June 2011 with Phase I to be completed in fourth quarter calendar 2011.

Some initial short hole drilling will target surface mineralisation west of the main ore zone to define potential mineable areas adjacent to the processing plant, storage dumps and surface infrastructure and facilities. The Phase I target for JORC compliance confirmation is +50 million tonnes. The full program will cover the entire southern area of the mining lease and current mineral inventory of +140 million tonnes.

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About South American Ferro Metals:

South American Ferro Metals Limited owns 100% of the mineral rights and property of the Ponto Verde Iron Ore Project, located in the heart of the Iron Ore Quadrilateral in Brazil, 55 kilometres from the town of Belo Horizonte in the state of Minas Gerais. The Iron Ore Quadrilateral is a prolific iron ore mining area, and the Ponto Verde Project is located proximate to established mining operations, iron and steel plants and existing infrastructure.

Website: www.safml.com