



25 July 2011

ASX Announcement

ASX Code: SFZ

QUARTERLY ACTIVITIES REPORT

FOR THE THREE MONTHS ENDED 30 JUNE 2011

- A total amount of 144,672 tonnes of ore was mined for the quarter with a 0.64 stripping ratio
- Iron ore products totalling 61,296 tonnes were produced during the quarter
- Plant throughput at more than 75,000tph in June 2011
- Plant throughput rate maintained at record rate of 250tph for last 10 days of June
- Phase 1 of staged resource definition drilling programme commenced June 2011 – full report for the end of the December quarter 2011
- Increased the plant capacity through the commencement of two shifts per day at the end of May 2011
- Expanded and strengthened Senior Leadership Team and renewed focus on delivery of operational improvement
- Increasing to three shifts per day to ramp up production to the targeted 1.5 Mtpa by end of December quarter 2011
- Completed detailed study of a fines concentrator
- Cash on hand of \$7.6 million at 30 June 2011
- No accidents or incidents reported during the period

South American Ferro Metals Limited (ASX: SFZ) (“SAFM” or the “Company”), the only ASX-listed pure play iron ore producer in Brazil, provides the following commentary for the three months ended 30 June 2011, to be read in conjunction with the Appendix 5B.

SAFM Chief Executive Officer Philip Hopkins said:

“Good progress was made during the June 2011 quarter on overcoming some of the start-up issues encountered at Ponto Verde, enabling the management team to create a solid foundation from which to increase production through FY2012. Plant throughput rate has been maintained at consistently high levels, with nameplate production capacity expected to be achieved during the December quarter. The fundamentals of the Ponto Verde Project remain strong, and work is now well underway on confirming a JORC-compliant resource.”



Ponto Verde Iron Ore Project, Brazil

SAFM 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 Minas Gerais state, Southern Brazil.

1. Production

| | June 2011 Quarter | March 2011 Quarter |
|--|-------------------|--------------------|
| ROM production | 144,672 tonnes | 53,441 tonnes |
| ROM Stock at Ponto Verde at end of quarter* | 3,608 tonnes | 6,192 tonnes |
| Finished Stock produced | 61,296 tonnes | 22,074 tonnes |
| Finished Stock at Ponto Verde at end of quarter* | 57,452 tonnes | 22,074 tonnes |

* This represents estimated closing stock balances. An audited stock survey was conducted at 30 June and results are still awaiting at date of announcement.

In late May 2011, the mine operations moved to two shifts per day in order to ramp up production rates toward the ultimate 1.5Mtpa (125,000tpm) level. The fully permitted 1.5Mtpa ROM production level will be achieved by the end of the December quarter following the further implementation of the third and final production shift in the plant.

The following production graphs indicate the impact of the second shift as noted above.

Figure 1 – Throughput

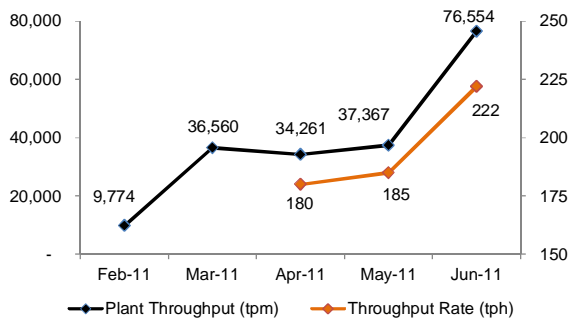
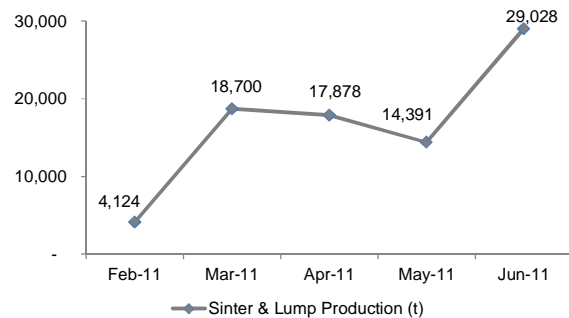


Figure 2 – Sinter & Lump Production



During the June 2011 quarter, plant throughput more than doubled, from 34,261tpm in April 2011 to 76,554tpm in June 2011, a site record, while the average throughput rate increased from 180tph to 222tph (refer Figure 1). In addition, a throughput rate of 250tph was maintained over the last 10 days in June. Both achievements were also site records. The Company has plans to complete the plant debottlenecking to achieve a throughput rate of 280-300tph by the end of August 2011. Sinter and Lump production for the month of June 2011 was 29,028 tonnes (refer Figure 2) at a consistent quality of approximately 60% Fe. Safety continues to be an important objective for SAFM and the production result was achieved without a health and safety incident or interruption.



During the quarter, the Ponto Verde Project experienced some carry over start-up challenges from the March 2011 quarter with senior personnel changes, higher-than-planned phosphorus levels in the products, lower-than-planned plant throughput rates and mining contractor performance, however these issues have been recognised and have either been addressed, or are currently in the process of being dealt with.

2. Ore Quality Update

While variability in ore quality was detected during mine start-up (March 2011 quarter), 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 to achieve a consistent 62% Fe grade product for sale into the domestic market.

3. People

Early in the June 2011 quarter, SAFM announced the appointment of Philip Hopkins as Chief Executive Officer. Following this appointment, senior management changes were made including the appointment of Glauco Mol as Acting Chief Operating Officer, promotion of Eduardo Freitas to Administration and Purchasing Manager and the appointment of Rodolfo Cesar as Financial Controller. SAFM is currently recruiting for a permanent Chief Operating Officer, Projects Director and a Geologist and expects the complete Leadership Team to be in place by the end of August 2011. In addition, new management reporting systems have been implemented to ensure close tracking of site performance and Company focus on priority areas.

The expanded and strengthened Leadership Team will ensure the Company's production and expansion targets are met as effectively as possible. SAFM 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.

4. Further Mine Site Enhancements

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

- Increased waste stripping in preparation for a third production shift;
- Product quality improvement through plant screen size reconfiguration;
- Debottlenecking of the plant through plant adjustments and refinement;
- Further focus on contractor effectiveness and reliability;
- Increased staff and equipment levels in line with increased stripping and production;
- 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;
- Construction and commissioning of an on-site refuelling station;
- Enhancement of the mine development/excavation plan; and
- Expansion to the plant water feed capability.
- Site full surface geological mapping with a focus on additional production sites

5. Resource Expansion Update

SAFM has appointed Coffey Mining to undertake the Resource Definition Programme to confirm the Ponto Verde resource to JORC standards. A staged resource drilling programme commenced in June 2011 with Phase 1 expected to be completed in the December quarter of calendar 2011. At the end of the quarter, there were five rigs on site. Two additional rigs are planned for arrival on site by the end of July 2011.

As well as drilling and data management supervision, the Resource Definition Programme also includes resource modelling and report completion with completion of the work planned for the end of December quarter 2011.

The Phase 1 program will include drilling to the west of the main ore body in an area of recent surface iron ore colluvium discovery. The Phase 1 target is +50 million tonnes. The full phased resource definition program when completed will cover the entire southern area of the mining lease and the current mineral inventory of +140 million tonnes.

6. Concentrator Project

Initial design work on a concentration system for the mine's ore fines has been completed by Brazilian consulting firm, Senior Consultants. The final detailed design report was received in June 2011 with project justification to be completed 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 the end of the first quarter calendar 2012.

7. Marketing

Domestic demand for iron ore and the local price both firmed towards the end of the quarter. SAFM recorded sales of 25,918 tonnes of Small Lump ore to local steelmakers in May and June (10,160 tonnes in May and 15,757 tonnes in June). Another significant Brazilian steel producer has also contracted to buy 30,000 tonnes of Sinter Feed, while pig iron producers have committed to buying 7,000 tonnes of Sinter Feed.



Key Milestones for FY2012

| Milestone | Expected Timing |
|---|------------------------------|
| Introduction of third shift per day | End of December quarter 2011 |
| Finish debottlenecking plant to achieve throughput rate of 280-300tph | End of August 2011 |
| Resource Definition Report | End of December 2011 |
| Concentrator Project review completed | End of July 2011 |
| Leadership Team in place | End of August 2011 |

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For more information:

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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