



26 August 2011

ASX Announcement

ASX Code: SFZ

Operational Update: Ponto Verde Iron Ore Project (Brazil)

- **First month of profitability and positive cashflow in July 2011 as production continues to improve**
- **Increased production from the Ponto Verde project in July 2011**
- **Contracts for concentrator construction being finalised; project on schedule for start-up in early calendar 2012**
- **Leadership Team fully in place; focus on operational enhancements and company growth**
- **Resource Definition Programme on target to be completed in the fourth quarter of 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 in Minas Gerais state.

Production and Profitability Update

Production volumes continued to increase in July 2011 continuing a four-month trend. The Company's performance relative to its Business Plan has seen SAFM achieve the first month of profitability and positive cashflow since the Ponto Verde Iron Ore Project entered production. A maiden unaudited operating profit before tax of around \$500,000 was achieved in July 2011, following an increase in monthly production.

SAFM continues to build a solid foundation on which to reach full capacity at Ponto Verde. Production continues to ramp up toward the ultimate fully permitted 1.5Mtpa (125,000tpm) level, which management continues to estimate will be achieved by the end of calendar 2011.



Concentrator Project

The Concentrator construction project was approved by SAFM's Board of Directors last month. Final contracts for construction of the Concentrator are currently being completed and the project remains on schedule to start-up in early calendar 2012.

Senior Management Update

As announced on 23 August 2011, SAFM has completed the recruitment of the final two positions on the Leadership Team. It is this team that will be responsible for ramping up production at Ponto Verde and positioning SAFM for future growth. Helvécio José Veloso Pires has joined SAFM as Chief Operating Officer/Operations Director while José Márcio Paixao has been appointed as Chief Development Officer/Projects Director. Both joined SAFM in mid-August 2011.

Resource Definition Update

The Resource Definition Programme being undertaken to confirm the Ponto Verde deposit to JORC standards is progressing well and remains on target, with Phase 1 expected to be completed by the end of calendar 2011. As of late August 2011, there were six rigs on site aiming to complete the activity for the programme.



Future Expansion

Following the significant improvement in production from Ponto Verde over recent months, and the appointment of our new Chief Development Officer, SAFM is commencing initial work that will allow the company to begin considering various growth options for the Ponto Verde project. The company will keep shareholders informed on all developments related to the possible expansion of Ponto Verde.

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For more information:

South American Ferro Metals (SAFM)	MAGNUS Investor Relations + Corporate Communication
Philip Hopkins (CEO) T: +55 31 8229 8301	Dudley White / Stephanie Sim T: +61 2 8999 1010



About South American Ferro Metals Limited:

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

Forward Looking Statements

This announcement contains certain forward looking statements which by nature, contain risk and uncertainty because they relate to future events and depend on circumstances that occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements.

Website: www.safml.com