

QUARTERLY ACTIVITIES REPORT**FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2011**

- Ramp up complete to achieve full licensed production capacity at the Ponto Verde Iron Ore Project in Minas Gerais state, Brazil
- Move to third production shift completed, a significant milestone for SAFM
- Beneficiated production increased to 123,895 tonnes in the September 2011 quarter, from 49,104 tonnes in the June 2011 quarter, an increase of 74,791 tonnes
- 292,431 tonnes of ore was mined for the quarter with an average stripping ratio of 0.53
- Average process plant throughput rate of 256 tonnes per hour achieved for three months ended 30 September 2011 (Quarter ended 30 June 2011: 250 tonnes per hour)
- First stage of drilling for the Resource Definition Programme completed. A JORC-compliant resource report is scheduled for receipt before end of calendar 2011
- Civil works for concentrator construction completed and all long lead items ordered
- Key appointments to complete Senior Leadership Team
- Cash on hand of \$7.1 million at 30 September 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 September 2011, to be read in conjunction with the Appendix 5B.

SAFM Chief Executive Officer Philip Hopkins said:

"The September quarter was a landmark period for SAFM with the achievement of full production capacity at Ponto Verde, the start of concentrator construction and the completion of the senior management team. The company is now benefiting from a stable management team with considerable experience in the iron ore industry worldwide, enabling SAFM to build a track record of consistent improvement in production. The Resource Definition Programme is nearing completion and this, combined with our improved production performance, is allowing SAFM to consider opportunities for organic growth at Ponto Verde. We look forward to delivering the results of the drilling programme during the current quarter and to posting another improvement in iron ore production."

1. Production

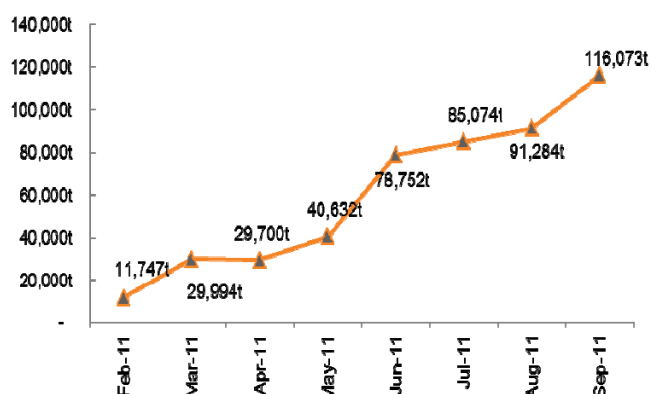
	September 2011 Quarter (tonnes)	June 2011 Quarter (tonnes)	% movement
ROM production	292,431	149,084*	96%
Beneficiated production	123,895	49,104*	152%
Finished Stock at Ponto Verde at end of quarter	42,390	45,260*	(6%)

*As per the audited financial report

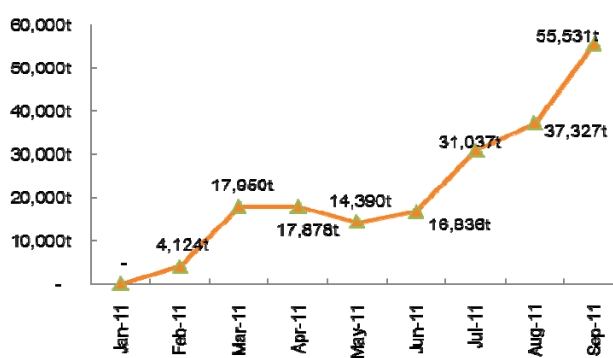
From 1 September 2011, mine operations at the Ponto Verde Iron Ore Project moved to three shifts per day, thereby achieving SAFM's fully permitted ROM production allocation of 1.5 million tonnes per annum. This target was achieved three months ahead of plan. The processing plant throughput rate for the three months ended 30 September 2011 was 267 tonnes per hour, an increase of 6.8% from the previous quarter. This increase was as a result of successful debottlenecking work.

The following production graphs reflect the increase in finished product and ROM production since commissioning of the plant in February 2011:

ROM Production



Beneficiated production



SAFM continues to focus on achieving ore quality targets with iron ore grades of between 59.5% and 60% Fe+ achieved during the quarter, as well as continuing to assess full surface geological mapping with a focus on additional production sites.

2. Sales

	September 2011 Quarter (tonnes)	June 2011 Quarter (tonnes)	% movement
Sales volumes – Sinter Feed	86,445	-	100%
Sales volumes – Small Lump	40,321	25,918	56%

During the quarter, SAFM entered into a long-term sales contract with Namisa, part of CSN, one of Brazil's largest steelmakers. The increase in sales of Small Lump reflected the increase in production over the quarter.

3. People

On 23 August 2011, the Company finalised the recruitment of the Leadership Team with the appointment of Helvécio José Veloso Pires as Chief Operating Officer/Operations Director and José Márcio Paixao as Chief Development Officer/Projects Director.

The expanded and strengthened Leadership Team will ensure that SAFM continues to meet its production and expansion targets into the future. SAFM is confident that, with the backing of an appropriate and effective management team, SAFM's growth strategies can be achieved in a safe, successful and sustainable manner.

4. Resource Expansion Update

SAFM has completed the first stage drilling component of its Resource Definition Programme, with a total of 3,300 meters drilled. Sampling was completed at the end of September 2011 and the geological modeling commenced on that date. A JORC-compliant resource report is due to be received before the end of calendar 2011.

5. Concentrator Project

In August and September 2011, all long lead equipment items relating to the Concentrator project were ordered and the civil work was completed. The construction of the steelwork has commenced and is scheduled for completion in December 2011.

6. Conversion of Class C Performance shares

The production milestone for the conversion of Class C Performance Shares under the Share Sale agreement has been met by SAFM achieving production over a continuous twelve month period at a rate equal to, or greater than, 800,000 tonnes per annum.

Based on the achievement of this milestone, 83,977,967 Class C Performance Shares will convert to 83,977,967 fully paid ordinary shares in SAFM ("Ordinary Shares") effective from today's date, being 27 October 2011 (Conversion Date).

Each holder of Class C Performance Shares will receive the equivalent number of Ordinary Shares, which will rank pari passu in all respects with existing ordinary shares in issue, from the Conversion Date.

The Company has applied for quotation on the Australian Securities Exchange ("ASX") of the new Ordinary Shares and a holding statement will be despatched to holders of the Performance Shares on or around 4 November 2011.

It should be noted that the new ordinary shares to be issued under the conversion will be subject to the terms and conditions of the escrow provisions as set out in the Restriction Agreement entered into between the holder of the Class C Performance shares and the Company.

7. Key Milestones for FY2012

Milestone	Expected Timing
Resource Definition Report	End of December 2011
Concentrator Project to be commissioned	End of first quarter 2012

--Ends--

For more information:

South American Ferro Metals (SAFM)	MAGNUS Investor Relations + Corporate Communication
Philip Hopkins (CEO) T: +61 8 9243 5340 M: +61 4 5902 5255	Dudley White / Stephanie Sim T: +61 2 8999 1010

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.

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

For personal use only