



26 April 2012

ASX Announcement

ASX Code: SFZ

QUARTERLY ACTIVITIES REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2012

Highlights:

- **No reportable accidents or environmental incidents for the period, maintaining exemplary record since start-up.**
- **Beneficiated production from Ponto Verde for the Quarter was 115,574 tonnes, an increase of 7.1% from the December 2011 Quarter.**
- **Definitive Feasibility Study (DFS) announced in February 2012 for a Stage 1 expansion of Ponto Verde to 8Mtpa, to be followed by a further 8Mtpa in a Stage 2 expansion.**
- **Phase II of Resource Definition Programme commenced with an aim to increase SAFM's JORC resource and support the DFS.**
- **Stage 1 of Concentrator installation proceeding on schedule, with commissioning on track for late May 2012.**
- **Strong net operating cash flow of \$667,417 for the quarter, boosted by sales of fines, mine waste and excess ROM material.**

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 31 March 2012, to be read in conjunction with the Appendix 5B.

SAFM Chief Executive Officer Philip Hopkins said:

"Despite the ongoing heavy rain, the March Quarter was another period of strong performance for Ponto Verde, with increased production of beneficiated product and the start of the Definitive Feasibility Study for our proposed expansion to 8mtpa. Cashflow was also higher through the period, with additional sales into a strong local market for our product. Construction of the concentrator has also progressed and this will more than double projected net cash flow when commissioned later in the current quarter."



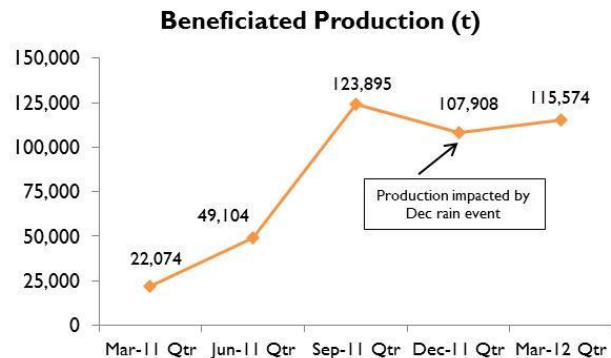
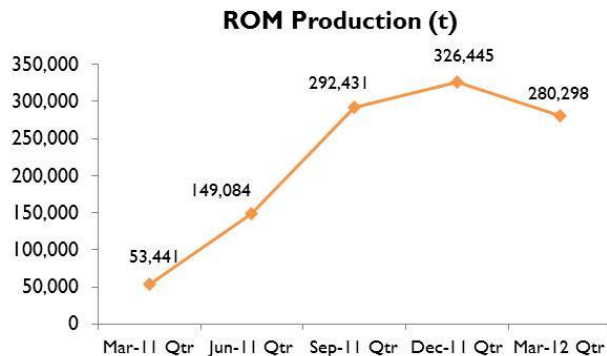
1. Safety and Environment

There were no reportable accidents or environmental incidents during the Quarter. This track record of safety performance continues the unblemished record from SAFM's commencement of mining in November 2010.

SAFM's safety and environmental performance underpins the company's licence to operate and grow in Brazil.

2. Production

	March 2012 Quarter (tonnes)	December 2011 Quarter (tonnes)	% movement
ROM production	280,298	326,445	(14.1%)
Beneficiated production	115,574	107,908	7.1%
Finished Stock at Ponto Verde at end of Quarter	5,459	1,866	



Heavier-than-average rainfall continued through the January to March 2012 period, following the 1-in-100 rain event that affected the previous quarter. This had a material impact on the quality of the ore feed to the Ponto Verde plant. ROM production fell 14.1% to 280,298 tonnes during the March quarter, however mass recovery from the ore increased to 45%, from 33% in the three months to 31 December 2011.

The saturated ore reduced process plant throughput to 185 tonnes per hour (down from 270 tonnes per hour). However, significant controls were placed on plant ore feed selection, which led to an increase of 7.1% in beneficiated production during the quarter to 115,574 tonnes.

During the quarter, the decision was taken to move to a full 24 hours-a-day, 7 days-a-week production shift to fully utilise weekend capacity. The additional shift will commence at the end of April 2012 and is anticipated to result in an 18% increase in capacity.



3. Resource Definition Programme

Phase II of the Resource Definition Programme announced in February 2012 has commenced with the aim to:

- a. Increase the size of the deposit at Ponto Verde in line with the Exploration Target of around 300 to 350Mt at 40 to 44%¹ Fe, from the current JORC compliant resource² of 230.6Mt at 44.52% Fe (Includes Indicated Resource of 60.6Mt at 41.61% Fe, and Inferred Resource of 170Mt at 45.55% Fe).
- b. Increase the above-mentioned resource in support of the Definitive Feasibility Study. (For more information see ASX announcement dated 29 February 2012).

Further drilling will take place after Phase II to fully define the full resource.

4. Definitive Feasibility Study

In late February, SAFM also announced that it had approved the start of a Definitive Feasibility Study (DFS) to expand Ponto Verde to a capacity of 8 Mtpa ROM throughput, from the current 1.5 Mtpa licenced capacity. The DFS is expected to take 12 months to complete, with an additional period required to finalise the necessary permitting under Brazilian law.

A preliminary study was completed in January 2012 and has indicated that a Phase I expansion to 8Mtpa is feasible utilising a single product process option of crushing, grinding and magnetic separation producing a pellet plant feed product. The DFS will also evaluate the required footprint and preliminary work required for a second (Phase II) 8 Mtpa expansion of Ponto Verde.

5. Markets

The domestic sinter feed market remained strong over the quarter with the Company's client requesting a longer-term contract for Ponto Verde's full production. The contract was renewed with a realised price increase of 11%. In turn, a decision was taken to allocate some of the sinter feed to the spot market each month to capture additional potential upside in this market.

6. Turnover

	March 2012 Quarter (tonnes)	December 2011 Quarter (tonnes)	% movement
Sales volumes – Sinter Feed	71,228	89,269	(20.2%)
Sales volumes – Small Lump	40,753	37,426	8.9%
Sales volumes – Undersize	56,870	70,234	(19.1%)
Sales volumes – ROM	-	43,741	n/a
Sales volumes – Waste	6,132	-	n/a

¹ The Exploration Target is based on the geological model associated with the defined JORC Resource as stated, and has been determined by a JORC Competent Person Mr Philip Hopkins. It is uncertain if further exploration of the Exploration Target will result in the determination of Mineral Resources

² Coffey Mining, December 2011 - see ASX announcement dated 23rd December 2011.



Despite the decrease in Sinter Feed, net turnover increased by 3.5% to \$4.2 million for the quarter ended March 2012, due to an increase in Small Lump sales, an increase in Sinter Feed selling prices and additional sales of iron ore fines, excess Run of Mine (ROM) material and mine waste.

7. Cash Flow

Strong cash flow was maintained for the Quarter with cash on hand of \$7 million at 31 March 2012. Cash flow from operations was boosted by the sales of iron ore fines and the sale of mine waste, as well as stronger working capital management.

8. Concentrator Construction

Construction of the concentrator proceeded as planned throughout the quarter with all major components on site apart from the two magnetic separators that are being supplied from South Africa. At the end of the quarter, the two magnetic separators remained in customs on the Brazilian coast. The overall project is on schedule for completion in late May 2012.

9. Continuous Improvement

The management team at Ponto Verde maintained a focus on continuous improvement during the quarter with the following activities and achievements being met:

- Decision taken to replace the secondary jaw crusher with a cone crusher with installation on schedule to be delivered by the end of April 2012.
- Planning and preparation for the upgraded site multi-use infrastructure complex continued on schedule with the on site laboratory due for completion by the end of June 2012.
- Heavy rains in December 2011, coupled with the ongoing wet season, resulted in material damage to the bridge to the south of the site. While the bridge remains serviceable, foundation correction work is required and this was started during the quarter. This work is due to be completed during the June quarter.

10. Key Milestones for FY2012

Milestone	Expected Timing
Completion of concentrator construction and commissioning	Late May 2012
Completion of the Stage II Concentrator Study	End June 2012
Completion of the Phase II Drill Programme	End June 2012

--Ends--



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.

Competent Person's Statement

Information in this statement that relates to the JORC Resource at Ponto Verde is based on information compiled by Bernardo Horta Cerqueira Viana who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Viana has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as a "Competent Person" as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore reserves (the JORC Code). Mr Viana consents to the inclusion in this announcement of the statements based on his information in the form and context in which they appear.

Information in this announcement that relates to Exploration Targets and on targeted resources is based on information provided by Mr Philip Hopkins, Chief Executive Officer of South American Ferro Metals Limited, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Hopkins has sufficient experience which is relevant to the style of mineralisation and 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 Exploration Results, Mineral Resources and Ore Reserves'. Mr Hopkins consents to the inclusion in the report of the statements based on his information in the form and context in which it appears.

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