



SOUTH AMERICAN FERRO METALS LIMITED

ABN 27 128 806 977

NOTICE OF ANNUAL GENERAL MEETING EXPLANATORY MEMORANDUM PROXY FORM

Date of Meeting

16 November 2012

Time of Meeting

10:00am (Sydney time)

Place of Meeting

Level 27, AMP Centre, 50 Bridge Street, Sydney NSW 2000

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Annual General Meeting ("**Meeting**") of South American Ferro Metals Limited ("**SAFM**" or the "**Company**") will be held at 10:00am (Sydney time) on 16 November 2012 at Level 27, AMP Centre, 50 Bridge Street, Sydney NSW.

The Explanatory Memorandum to this Notice of Meeting provides additional information on matters to be considered at the Meeting. The Explanatory Memorandum and the Proxy Form are part of this Notice of Meeting.

Business

Financial Statements and Reports

To receive and consider the Financial Report, the Directors' Report and Independent Auditor's Report for SAFM for the financial year ended 30 June 2012.

Resolution 1: Remuneration Report

To consider and, if thought fit, to pass, the following **advisory resolution**:

"The Remuneration Report contained in the Financial Report for SAFM for the financial year ended 30 June 2012 is adopted."

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 1 by or on behalf of the following persons:

- a) a member of the Key Management Personnel; or
- b) a Closely Related Party of a member of Key Management Personnel.

However, a person described above may cast a vote on Resolution 1 (Remuneration Report), and the Company need not disregard the vote, if:

- the person does so as a proxy appointed by writing which specifies how the proxy is to vote upon that Resolution; or
- the person is the Chair and has been appointed as a proxy (expressly or by default) without being directed how to vote on the Resolution; and
- in either case, the vote is not cast on behalf of any person described above in (a) or (b) above.

Resolution 2: Re-election of Mr Stephen Fabian

To consider and, if thought fit, to pass the following **ordinary resolution**:

"That, in accordance with clause 13.2 of the Constitution of the Company, Mr Stephen Fabian retires by rotation, and being eligible, is re-elected as a Director of the Company."

Resolution 3: Re-election of Mr Stephen Turner

To consider and, if thought fit, to pass the following **ordinary resolution**:

"That, in accordance with clause 13.2 of the Constitution of the Company, Mr Stephen Turner retires by rotation, and being eligible, is re-elected as a Director of the Company."

Resolution 4: Election of Mr Wayne Kernaghan

To consider and, if thought fit, to pass the following **ordinary resolution**:

"That, Mr Wayne Kernaghan, having been appointed as a Director of the Company since the last annual general meeting, who retires in accordance with clause 13.4 of

the Constitution of the Company and being eligible, be re-elected as a Director of the Company."

Resolution 5: Removal of Auditor

To consider and, if thought fit, to pass, with or without amendment the following **ordinary resolution**:

"That Grant Thornton Audit Pty Ltd be removed as auditors of the Company."

Resolution 6: Appointment of Auditor

To consider and, if through fit, to pass, with or without amendment the following as a **special resolution**:

"That Ernst & Young be appointed as auditors of the Company."

Resolution 7: Issue of options to Mr Wayne Kernaghan

To consider and, if thought fit, to pass, with or without amendment the following **ordinary resolution**:

"That for all purposes, including for the purposes of ASX Listing Rules 7.1 and 10.14, a total of up to 2,500,000 Options to subscribe for the equivalent number of fully paid ordinary Shares in the Company be issued to Mining Investors Australia Pty Ltd, a company associated with Wayne Kernaghan, a Director of the Company in accordance with the South American Ferro Metals Limited Incentive Option Scheme Rules and as summarised in the Explanatory Memorandum accompanying this Notice."

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 7 by:

- a) any Director or a member of the Key Management Personnel, except a Director or member who is ineligible to participate in any employee incentive scheme in relation to the Company; and
- b) any associate (as defined in the ASX Listing Rules) of a Director or a Closely Related Party of a member of Key Management Personnel.

However, the Company need not disregard a vote cast on Resolution 7 if:

- it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy (either expressly or by default) for a person who is entitled to vote, without being directed how to vote; and
- in either case, the vote is not cast on behalf of the person described in a) or b) above.

Resolution 8: Issue of options to Mr Alan Doyle

To consider and, if thought fit, to pass, with or without amendment the following **ordinary resolution**:

"That for all purposes, including for the purposes of ASX Listing Rules 7.1 and 10.14, a total of up to 2,500,000 Options to subscribe for the equivalent number of fully paid ordinary Shares in the Company be issued to Alan Doyle, a Director of the Company in accordance with the South American Ferro Metals Limited Incentive Option Scheme Rules and as summarised in the Explanatory Memorandum accompanying this Notice.

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 8 by:

- a) any Director or a member of the Key Management Personnel, except a Director or member who is ineligible to participate in any employee incentive scheme in relation to the Company; and
- b) any associate (as defined in the ASX Listing Rules) of a Director or a Closely Related Party of a member of Key Management Personnel.

However, the Company need not disregard a vote cast on Resolution 8 if:

- it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy (either expressly or by default) for a person who is entitled to vote, without being directed how to vote; and
- in either case, the vote is not cast on behalf of the person described in a) or b) above.

Resolution 9: Issue of options to Mr Terence Willstead

To consider and, if thought fit, to pass, with or without amendment the following **ordinary resolution**:

"That for all purposes, including for the purposes of ASX Listing Rules 7.1 and 10.14, a total of up to 5,000,000 Options to subscribe for the equivalent number of fully paid ordinary Shares in the Company be issued to Patermat Pty Ltd, as trustee TW Willstead & Associates Superannuation Fund, a fund associated with Terence Willstead, a Director of the Company in accordance with the South American Ferro Metals Limited Incentive Option Scheme Rules and as summarised in the Explanatory Memorandum accompanying this Notice.

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 9 by:

- a) any Director or a member of the Key Management Personnel, except a Director or member who is ineligible to participate in any employee incentive scheme in relation to the Company; and
- b) any associate (as defined in the ASX Listing Rules) of a Director or a Closely Related Party of a member of Key Management Personnel.

However, the Company need not disregard a vote cast on Resolution 9 if:

- it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy (expressly or by default) for a person who is entitled to vote, without being directed how to vote; and
- in either case, the vote is not cast on behalf of the person described in a) or b) above.

Resolution 10: Directors' Remuneration

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purpose of clause 13.7 of the Constitution, ASX Listing Rule 10.17 and for all other purposes, Shareholders approve the maximum total aggregate fixed sum per annum remuneration to be paid to non-executive Directors to be set at \$750,000 (being an increase of \$250,000) to be paid in accordance with the terms and conditions set out in the Explanatory Statement."

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 10 by or on behalf of any of the following persons:

- a) any Director or a member of the Key Management Personnel; and
- b) an associate (as defined in the ASX Listing Rules) of a Director or, a Closely Related Party of a member of the Key Management Personnel.

However, the Company need not disregard a vote cast on Resolution 10 if:

- it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy (either expressly or by default) for a person who is entitled to vote, without being directed how to vote; and
- in either case, the vote is not cast on behalf of the person described in a) or b) above.

Resolution 11: Approval of Additional 10% Placement Capacity under Listing Rule 7.1A

To consider and, if thought fit, pass the following resolution as a special resolution:

"That for the purposes of ASX Listing Rule 7.1A and for all other purposes, the issue of up to an additional 10% of the Company's share capital calculated in accordance with Listing Rule 7.1A, and on the terms and conditions set out in the Explanatory Notes, be approved."

Other Business

To transact any other business which may be lawfully brought forward in accordance with the Company's Constitution and the *Corporations Act 2001(Cth)*.

By order of the Board
Dion Cohen

Company Secretary
12 October 2012

NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

ENTITLEMENT TO ATTEND AND VOTING AT THE MEETING

For the purpose of voting at the Meeting, the Directors have determined that all fully paid ordinary shares in the Company ("**Shares**") are taken to be held by the persons who are registered as holding them at 7:00pm (Sydney time) on 14 November 2012. The entitlements of members to vote at the Meeting will be determined by reference to that time.

You may vote by attending the Meeting in person or by proxy (see below).

Ordinary resolutions require the support of more than 50% of those shareholders voting in person, by proxy, by representative or by attorney, who are entitled to vote on the relevant resolution. Special resolutions require the support of more than 75% of those shareholders voting in person, by proxy, by representative or by an attorney who are entitled to vote on the relevant resolution.

Every question arising at the Meeting will be decided in the first instance by a show of hands. A poll may be demanded in accordance with the Company's Constitution.

On a show of hands, every shareholder who is present in person or by proxy, representative or attorney, will have one vote. Upon a poll, every person who is present in person or by proxy, representative or attorney will have one vote for each Share held by that person.

VOTING EXCLUSION STATEMENTS

Various resolutions are subject to voting exclusions required by the Corporations Act or ASX Listing Rules.

For the purposes of such voting exclusions under the Corporations Act and ASX Listing Rules:

- Key Management Personnel means those persons specified as Key Management Personnel in the Company's Remuneration Report; and
- their Closely Related Parties which include certain family members, dependents and companies they control.

PROXIES AND VOTING

We ask for your support by attending the Meeting. However, should you not be able to attend and vote at the Meeting in person and wish to appoint a proxy, please complete and return the attached proxy form in accordance with the instructions in this pack to:

South American Ferro Metals Limited
Level 11, 151 Macquarie Street, Sydney 2000
Telephone number: +61 2 8298 2008
Facsimile number: +61 2 8298 2028

Proxies and corporate representatives

A member who is entitled to attend and vote at the Meeting may appoint a person, who need not be a member of the Company, as the member's proxy to attend and vote on behalf of the member.

A member who is entitled to cast two (2) or more votes may appoint two (2) proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

A proxy form accompanies this Notice of Meeting. Should you wish to appoint a proxy, please complete the proxy form included with this Notice and return it at least 48 hours prior to the Meeting:

- by delivery or mail to Level 11, 151 Macquarie Street, Sydney NSW 2000; or
- by facsimile to facsimile number +61 (0)2 8298 2028.

If the appointment is signed by an attorney, the power of attorney or a certified copy of it must be sent with the proxy form.

If a representative of a corporate shareholder or a corporate proxy is to attend the Meeting pursuant to section 250D of the Corporations Act 2001, a certificate of appointment of the representative may be obtained from the Company's share registry.

Appointment of the Chairman or other Key Management Personnel as your proxy

Due to the voting exclusions and requirements referred to above, if you intend to appoint the any Director (other than the Chairman) or Key Management Personnel or their Closely Related Parties or associates as your proxy, you are encouraged to direct your proxy on how to vote on Resolution 1 (Remuneration Report) by marking either "For", "Against" or "Abstain" on the proxy form for the relevant item of business.

The Chairman's stated voting intention would be to vote any undirected proxies in favour of Resolution 1 (Remuneration Report).

Further you should note that:

- if you execute a proxy form and do not nominate a person to act as your proxy, the Chairman will be appointed as your proxy by default;
- if you appoint the Chairman as your proxy or the Chairman is appointed as your proxy by default, and the proxy form does not specify whether to vote "For", "Against" or "Abstain", your undirected proxies held by the Chairman will be taken as a direction to the Chairman to vote in accordance with his stated voting intention, which is to vote in favour of Resolution 1 (Remuneration Report);
- you will be taken to authorise the Chairman to exercise the proxy even though Resolution 1 (Remuneration Report) is connected directly with the remuneration of a member of the Key Management Personnel and the Chairman has an interest in the outcome of that Resolution.

Shareholders always have the ability to appoint the Chairman as their proxy to cast the votes contrary to the Chairman's stated voting intention or to abstain from voting on a Resolution.

If you appoint someone other than the Chairman as your proxy who is another Director or member of Key Management Personnel or their Closely Related Parties or associates and do not direct them how to vote on a Resolution 1 (Remuneration Report) which is subject to a voting exclusion on voting undirected proxies, then your proxy will not be voted on that Resolution.

EXPLANATORY MEMORANDUM

This Explanatory Memorandum is intended to provide shareholders with sufficient information to assess the merits of the resolutions contained in the accompanying Notice of Annual General Meeting of South American Ferro Metals Limited ABN 27 128 806 977 ("**SAFM**" or "the **Company**").

Financial Statements and Reports

The Financial Statements, Directors' Report and the Independent Auditor's Report for the financial year ended 30 June 2012 (together, the "**Reports**") will be laid before the Annual General Meeting ("**Meeting**"). There is no requirement that shareholders approve the Reports.

Following the consideration of the Reports, the Chairman will give shareholders a reasonable opportunity to ask questions about or comment on the management of the Company.

The Chairman will also give shareholders a reasonable opportunity to ask the Auditor questions relevant to:

- (a) the conduct of the audit;
- (b) the preparation and content of the Independent Auditor's Report;
- (c) the accounting policies adopted by the Company in relation to the preparation of the financial statements; and
- (d) the independence of the Auditor in relation to the conduct of the audit.

The Chairman will also give the Auditor a reasonable opportunity to answer written questions submitted by shareholders that are relevant to the content of the Independent Auditor's Report or the conduct of the audit. A list of written questions, if any, submitted by shareholders will be made available at the start of the Meeting and any written answer tabled by the Auditor at the Meeting will be made available as soon as practicable after the Meeting.

Resolution 1: Remuneration Report

The Corporations Act requires that at a listed company's annual general meeting, a resolution that a remuneration report be adopted must be put to the shareholders. However, such a resolution is advisory only and does not bind the Directors.

The Remuneration Report sets out, as at 30 June 2012, the Company's remuneration arrangements for the Directors, the Chief Executive Officer and other Key Management Personnel as prescribed by the Corporations Act and Australian Accounting Standard 124.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the Meeting. In addition, the Corporations Act requires that Resolution 1, for the adoption of the Remuneration Report, be put to a vote. The vote on Resolution 1 (Remuneration Report) is advisory only and does not bind the Company or its Directors. However, the Board will consider the outcome of the vote and comments made by shareholders on Resolution 1 (Remuneration Report) at the Meeting when reviewing the Company's remuneration policies and practices.

Further, under the Corporations Act, if 25% or more of votes that are cast are voted against the adoption of the Remuneration Report at two consecutive annual general meetings, shareholders will be required to vote at the second of those annual general meetings on a "board spill resolution" to determine whether another meeting should be held within 90 days at which all of the Company's Directors (other than the Chief Executive Officer) must stand for re-election.

Chairman will vote undirected proxies

If you choose to appoint a proxy, you are encouraged to direct your proxy on how to vote on Resolution 1 (Remuneration Report) by marking either "For", "Against" or "Abstain" on the proxy form for that item of business. As noted in the Notice of Meeting, a voting exclusion applies to Resolution 1 (Remuneration Report) as required by the Corporations Act. If you appoint the Chairman as your proxy and your proxy does not specify whether to vote "For", "Against" or "Abstain", then your undirected proxy on Resolution 1 (Remuneration Report) held by the Chairman will be taken as a direction to the Chairman to vote in accordance with his stated voting intention, which is to vote in favour of Resolution 1 (Remuneration Report).

Board Recommendation:

The Board recommends approval of the Remuneration Report.

Resolutions 2 and 3: Re-election of Directors

Clause 13.2 of the Company's Constitution requires that if the Company has three or more Directors, one third (or the number nearest one third) of those Directors must retire at each annual general meeting, provided always that no Director except the Managing Director shall hold office for a period in excess of 3 years or until the third annual general meeting following his or her appointment, whichever is the longer.

The Company currently has six (6) Directors and accordingly Mr Stephen Fabian and Mr Stephen Turner must retire by rotation. A director who retires by rotation under clause 13.2 of the Company's Constitution is eligible for re-election.

Information about the background and experience of Mr Fabian and Mr Turner is set out in Annexure A to this Explanatory Memorandum.

The Directors, with Mr Fabian and Mr Turner abstaining in respect of Resolutions 2 and 3 respectively, unanimously recommend that you vote in favour of Resolutions 2 and 3.

Resolution 4: Re-Election of Director

Clause 13.4 of the Company's Constitution allows the Directors to appoint at any time a person to be a Director as an addition to the existing Directors, but only where the total number of Directors does not at any time exceed the maximum number specified by the Company's Constitution. Any Director so appointed holds office only until the next following annual general meeting and is then eligible for re-election.

Mr Wayne Kernaghan was appointed a Director on 26 June 2012 and retires in accordance with clause 13.4 of the Company's Constitution, and being eligible, seeks re-election.

Information about the background and experience of Mr Kernaghan is set out in Annexure A to this Explanatory Memorandum.

The Directors, with Mr Kernaghan abstaining in respect of Resolution 4, unanimously recommend that you vote in favour of Resolution 4.

Resolution 5: Removal of Auditor

In accordance with section 329(1A) of the Corporations Act the Company received a notice of intention to remove the current auditors Grant Thornton Audit Pty Ltd. Accordingly, shareholder approval is sought to remove the current auditors.

Under section 329 of the Corporations Act, an auditor of a Company may be removed from office by resolution at a general meeting of which notice of intention to move the resolution has been given.

This is part of a proposal to replace the current auditors, Grant Thornton Australia Limited, and appoint Ernst & Young to replace them for the reasons set out below in relation to Resolution 6:

The Directors unanimously recommend that you vote in favour of this resolution.

Resolution 6: Appointment of Auditor

The Company has received a notice of nomination from a director and shareholder of the Company for the appointment of Ernst & Young as auditors of the Company. A copy of this notice of nomination is set out in Schedule 1. The Company has also received the consent of Ernst & Young to the appointment as the Company's auditors. A copy of this consent is set out in Schedule 2.

Under section 327D of the Corporations Act, the Company in general meeting may appoint an auditor to replace an auditor removed in accordance with section 329. Accordingly, approval is sought from the shareholders for the appointment of Ernst & Young as auditors of the Company.

The key reason for the change of auditors arises because Ernst & Young is considered by the Directors to be well suited to be auditors of the Company for the following reasons:

- Ernst & Young has offices in Sydney, Australia and Belo Horizonte, Brazil where the Company's key project is located; and
- Ernst & Young has the appropriate expertise in relation to the companies in the resources sector, particularly in relation to companies operating in Brazil.

Resolution 7 to 9: Issue of Options to the Directors

Resolutions 7 to 9 will be voted on separately. However the information outlined below is relevant to all of those resolutions.

Shareholder approval is required under ASX Listing Rule 10.14 because Mr Kernaghan, Mr Doyle and Mr Willsteed are each a Director. ASX Listing Rule 10.15A requires this Notice of Meeting to include the following information in relation to the Options which may be granted to these Directors pursuant to the Scheme.

Shareholder approval is sought for the grant of a total up to 10,000,000 Options to the Directors of the Company (or their nominated associates) to subscribe for up to a total of 10,000,000 fully paid Shares in the Company, in accordance with the Scheme Rules, as follows:

Director	Number of Options
Mining Investors Australia Pty Ltd a company associated with Non Executive Director, Mr Wayne Kernaghan	2,500,000
Mr Alan Doyle, a Non Executive Director	2,500,000
Patermat Pty Ltd ATF T V Willsteed & Associates Pty Ltd Superannuation Fund , a company associated with Non Executive Director, Mr Terence Willsteed	5,000,000

The terms and conditions are set out below:

The date of issue of Options

If approved, the Options will be issued within 30 days of the approval by the Shareholders.

Exercise price of Options

The Options will be granted for nil consideration. The exercise price of the Options will be the 30 day volume weighted average price of the Company's shares traded on the ASX during the 30 days prior to the issue of the options.

First exercise date for Options

The Options are exercisable in three equal tranches, the tranches becoming exercisable on the fulfilment of the vesting conditions and exercise conditions set out below or where a special circumstance arises giving rise to an earlier exercise.

Vesting Conditions

Options granted under the Plan to the Directors will be subject to the following Vesting Conditions:

- (a) one third of the options will vest if employed by the Company on 31 December 2013;
- (b) one third of the options will vest if employed by the Company on 31 December 2014;
and
- (c) one third of the options will vest if employed by the Company on 31 December 2015.

Exercise Conditions

In addition to the Vesting Conditions set out above, the further Exercise Condition that must be satisfied before Options can be exercised is that the volume weighted average price of the Company's Shares traded on the ASX during the five days prior to exercise of the Options, must be at least \$0.50.

Last exercise date for Options

All Options will lapse automatically if not exercised by 15 November 2017.

Estimated Value

The value assessed for the Options will be calculated at the time of issue and the value will be expensed over the service period, in accordance with the Australian Accounting Standards (AASB 2).

For illustrative purposes, using binomial methodology and Monte Carlo analysis, if the Options were issued on 16 October 2012 (Effective Valuation Date) and using the following assumptions, the Options would have an estimated remuneration value as follows:

Assumptions	
Share price at Effective Valuation Date	0.16
Exercise price	0.16
Risk free rate	2.53%
Volatility	77.94%
Expiry date	15 November 2017
Estimated value per Option	0.009

Based on the estimated value per Option the value of Options to be issued to the Directors would be as follows:

	Number	Value (A\$)
Patermat Pty Ltd ATF T V Willsteed & Associates Pty Ltd Superannuation Fund (Terence Willsteed)	5,000,000	45,000
Mining Investors Australia Pty Ltd (Wayne Kernaghan)	2,500,000	22,500
Mr Alan Doyle	2,500,000	22,500
Total	10,000,000	90,000

Other Information

ASX Listing Rule 10.15A requires disclosure of the following additional information in relation to the offer of Options to the Directors:

- (a) no Director or other person referred to in Listing Rule 10.14 has previously received Options under the Scheme;
- (b) all Directors of the Company are entitled to participate in the Scheme;
- (c) the Company will not provide any loan funding to the Directors in order to acquire or exercise the Options;
- (d) details of any Options and/or Shares issued under the Scheme will be published in each annual report of the Company relating to the period in which Options or Shares have been issued, and that approval for the issue of Options or Shares was obtained under Listing Rule 10.14; and
- (e) any additional persons who become entitled to participate in Scheme after Resolutions 7-9 are approved who are not named in the Notice of Meeting will not participate until approval is obtained under Listing Rule 10.14.

A Voting Exclusion Statement is set out under Resolutions 7-9 in the Notice of Meeting.

The Directors unanimously recommend that you vote in favour of this resolution.

Resolution 10: Directors' Remuneration

Clause 13.7 of the Constitution requires that the total aggregate fixed sum cash remuneration per annum to be paid to the Directors (excluding salaries of executive Directors) from time to time will not exceed the sum determined by the Shareholders in a general meeting and the total aggregate fixed sum will be divided between the Directors as the Directors shall determine and, in default of agreement between them, then in equal shares.

Resolution 10 seeks Shareholder approval to increase the maximum total aggregate fixed sum cash remuneration per annum to be paid to the Directors to \$750,000. This represents an increase of \$250,000 to the amount stated in the Company's Constitution. The total aggregate fixed sum cash remuneration per annum has been determined after reviewing similar companies listed on ASX and the Directors believe that this level of remuneration is in line with corporate remuneration of similar companies.

The Board has determined to seek Shareholder approval for aggregate Directors' fees of up to \$750,000 to ensure that the Board has the capacity to appoint additional non-executive Directors as and when considered necessary by the Board.

Resolution 11: Approval of Additional 10% Placement Capacity under Listing Rule 7.1A

Under Resolution 11, the Company is seeking shareholder approval to create an ability to issue up to an additional 10% of the issued share capital of the Company under ASX Listing Rule 7.1A (Additional 10% Placement Capacity). Resolution 11 is a special resolution and requires approval of 75% of the votes cast by shareholders present and eligible to vote.

Eligibility criteria

Under Listing Rule 7.1A which has recently been inserted into the Listing Rules, an eligible listed entity may, subject to shareholder approval by way of special resolution, issue ordinary fully paid shares comprising up to 10% of its issued share capital in addition to the normal 15% new issue capacity under Listing Rule 7.1. An eligible entity for the purposes of Listing Rule 7.1A is an entity that is not included in the S&P/ASX 300 Index and has a market capitalisation of \$300 million or less. The Company is an eligible entity.

Placement capacity under Listing Rule 7.1 and 7.1A

The Additional 10% Placement Capacity is in addition to the Company's usual 15% placement capacity under Listing Rule 7.1. Only fully paid ordinary shares can be issued under the Additional 10% Placement Capacity.

As at the date of this Notice of Annual General Meeting, the Company has 409,147,743 Shares on issue and therefore, in addition to any other Shares which it can issue under the permitted exceptions to Listing Rules 7.1 and 7.1A, it has the capacity to issue:

- 61,372,161 Shares under Listing Rule 7.1; and

- subject to shareholder approval being obtained under Resolution 11, an additional 40,914,774 Shares under the Additional 10% Placement Capacity under Listing Rule 7.1A.

The actual number of Shares that the Company will have capacity to issue under Listing Rule 7.1A will be calculated at the date of issue of the Shares in accordance with the formula in Listing Rule 7.1A.2.

Minimum issue price

In accordance with Listing Rule 7.1A, Shares issued by the Company under the Additional 10% Placement Capacity can only be issued at a price that is not less than 75% of the VWAP (volume weighted average price) of the shares calculated over the 15 trading days on which trades in its Shares were recorded immediately before:

- the date on which the issue price of the Shares is agreed; or
- the issue date (if the Shares are not issued within five trading days of the date on which the issue price is agreed).

Placement period

Shareholder approval under Listing Rule 7.1A is valid from the date of this Annual General Meeting until the earlier to occur of:

- 12 months after the date of the Annual General Meeting; and
- the date of approval by shareholders of a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities) or Listing Rule 11.2 (disposal of main undertaking),

or such longer period if allowed by ASX.

Shareholder approval under Listing Rule 7.1A does not lapse if the Company's market capitalisation subsequently exceeds \$300 million or if it is included in the S&P/ASX 300 Index at some time during that period provided that the Company meets those criteria on the date of the Annual General Meeting.

Dilution to existing shareholdings

If Resolution 11 is approved by shareholders and the Company issues Shares under the Additional 10% Placement Capacity, there is a risk of economic and voting dilution to existing shareholders as a result. Further, as the market price of the Company's Shares may be significantly lower on the issue date than on the date of Annual General Meeting approval, and because the Shares may be issued at a price that is at a discount to the market price on the issue date, there is a risk that the Additional 10% Placement Capacity may raise less funding than it would based on current market prices.

As required by Listing Rule 7.3A.2, the table below shows a number of hypothetical scenarios regarding the effect of the Additional 10% Placement Capacity where Variable A in the formula in Listing Rule 7.1A.2 (representing the Company's share capital) has increased by either 50% or 100%, and the Share price has decreased by 50% or increased by 100% from the approximate Share price as at the date of this Notice of Annual General Meeting.

Dilution table

Share Capital (Variable 'A' in Listing Rule 7.1A.2)		Dilution table		
		\$0.07 50% decrease in Issue Price	\$0.14 Issue Price	\$0.28 100% increase in Issue Price
Current 409,147,743 Shares	Number of Shares (10%)	40,914,774	40,914,774	40,914,774
	Funds raised	\$2,864,034	\$5,728,068	\$11,456,136
50% increase 613,721,614 Shares	Number of Shares (10%)	61,372,161	61,372,161	61,372,161
	Funds raised	\$4,296,051	\$8,592,102	\$17,184,205
100% increase 818,295,486 Shares	Number of Shares (10%)	81,829,548	81,829,548	81,829,548
	Funds raised	\$5,728,068	\$11,456,136	\$22,912,273

The dilution table has been prepared on the following hypothetical assumptions:

- the current share price is assumed to be \$0.14, being the share price on 9 October 2012 immediately prior to finalising this Notice of Annual General Meeting.
- the Company issues the maximum number of shares available under the Additional 10% Placement Capacity;
- any increase in Variable A (being the issued share capital at the time of issue) is due to an issue of shares which is an exception in Listing Rule 7.2, for example a pro-rata rights issue. However, a 15% placement under Listing Rule 7.1 does not increase Variable A for the purposes of calculating the placement capacity under Listing Rule 7.1A;
- the table shows only the effect of issues of shares under Listing Rule 7.1A, not under the 15% placement capacity under Listing Rule 7.1;
- the table does not show the dilution that may be caused to any particular shareholder by reason of placements under Listing Rule 7.1A, based on that shareholder's holding at the date of the Annual General Meeting. For instance, shareholders will have different outcomes depending on whether or not they participate in a pro-rata issue which has the effect of increasing Variable A; and

The Company does not represent that these assumptions will necessarily occur.

Purpose of the 10% Placement

The Company may seek to issue Shares under the Additional 10% Placement Capacity for either:

- a cash issue price, in which case, the Company may use the funds to fund its projects, for working capital or for other corporate purposes; or

- non-cash consideration, such as for the acquisition of new assets or investments, subject to any applicable ASX requirements.

In either case, the cash issue price or the value of the non-cash consideration must comply with the minimum issue price noted above.

Allocation policy

The Company's allocation policy is dependent on the prevailing market conditions at the time of any proposed issue under the Additional 10% Placement Capacity. The identity of the allottees under the Additional 10% Placement Capacity will be determined on a case by case basis having regard to the factors including the following:

- the methods of raising funds that are available to the Company, including a rights issue or other issue in which existing shareholders can participate;
- the effect of the issue of the shares on the control of the Company;
- the financial situation and solvency of the Company; and
- advice from corporate, financial and broking advisors (if applicable).

The allottees under the Additional 10% Placement Capacity have not been determined as at the date of finalisation of this Notice of Annual General Meeting and may include existing substantial shareholders and/or new shareholders, but the allottees cannot include any directors, related parties or associates of a related party of the Company without a further specific shareholder approval.

Voting exclusion

The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue or any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary shares, and any associate of such person. However, the Company need not disregard a vote if it is cast:

- as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the form to vote as the proxy decides.

At the date of this Notice of Annual General Meeting, the Company has not approached any particular existing shareholder or an identifiable class of existing shareholders to participate in the issue of the Shares. No existing shareholder's vote will therefore be excluded under the voting exclusion in the Notice of Annual General Meeting.

Previous approval

The Company has not previously obtained shareholder approval under Listing Rule 7.1A.

Recommendation

The Directors believe that Resolution 11 will provide the Company with flexibility to raise capital quickly if advantageous terms are available, and is in the best interests of the Company. The Directors recommend that shareholders vote in favour of this resolution.

Enquiries

Shareholders are required to contact Mr Dion Cohen (Company Secretary) on +61 2 8298 2008 if they have any queries in respect of the matters set out in these documents.

South American Ferro Metals Limited

(ACN 128806977)

Appointment of Proxy

I/We

of

being a member/members of South American Ferro Metals Limited ("Company") hereby appoint

	The Chairman of the Meeting (mark with an 'X')	OR		Write the name of the person you are appointing if this person is someone other than the Chairman of the Meeting.
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or failing the person named attending the Meeting, or if no person is named, the Chairman of the Meeting as my/our proxy to act generally at the Meeting on my/our behalf and to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 16 November 2012 at 10:00am (Sydney time) and at any adjournment of that meeting.

The Company encourages you to direct your proxy on how to vote on each resolution. The Chairman of the Meeting intends to vote all undirected proxies that he holds in favour of all resolutions.

IMPORTANT FOR RESOLUTION 1:

	<p>By marking this box, you are directing the Chairman of the Meeting to vote in accordance with his voting intentions on Resolution 1 as set out above and in the Notice of Meeting. If you appoint the Chairman of the Meeting as your proxy you can direct him how to vote by either marking the boxes on any of the items below (for example if you wish to vote "for", "against" or "abstain" from voting) or by marking this box (in which case the Chairman will vote in favour of Resolution 1). If you do not mark this box, and you have not directed your proxy how to vote on Resolution 1, the Chairman of the Meeting will vote in accordance with his stated voting intention, which is to vote in favour of Resolution 1. The Chairman intends to vote undirected proxies in favour of each resolution (including Resolution 1).</p> <p>I/we direct the Chairman of the Meeting to vote in accordance with his voting intentions on Resolution 1 (except where I/we have indicated a different voting intention above) and acknowledge that the Chairman of the Meeting may exercise my proxy even though Resolution 1 is connected directly or indirectly with the remuneration of a member of the Key Management Personnel and even if the Chairman of the Meeting has an interest in the outcome of that Resolution and that votes cast by him, other than as proxy holder, would be disregarded because of that interest.</p>
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Voting directions to your proxy – please mark an 'X' to indicate your directions.

Resolution	For	Against	Abstain
1. Adoption of the Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Re-election of Mr S Fabian	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Re-election of Mr S. Turner	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Re-election of Mr W Kernaghan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Removal of auditor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Appointment of auditor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Issue of options to Mining Investors Australia Pty Ltd, a company associated with Mr W Kernaghan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Issue of options to Mr A Doyle	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Issue of options Patermat Pty Ltd, as trustee TW Willsted & Associates Superannuation Fund], a company associated with Mr T Willsted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Directors' remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Additional 10% Placement Capacity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signed this day of 2012.

Individual Shareholder 1

Shareholder 2

Shareholder 3

Individual/Sole Director

Director

Director/Company Secretary

This form must be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the shareholder's constitution and the Corporations Act 2001 (Cth).



Instructions for Completion of Proxy Form

1. A member entitled to attend and vote is entitled to appoint not more than two proxies.
2. Where more than one proxy is appointed, each proxy must be appointed to represent a specified proportion of the member's voting rights.
3. Appointment of a proxy by a member who is a corporation must be given in accordance with the Corporations Act 2001 (Cth) or signed on its behalf by an authorised attorney.
4. If this proxy is executed under a Power of Attorney, the instrument appointing the attorney must accompany the form of proxy.
5. Any instrument of proxy in which the name of the appointee is not filled in shall be deemed to be given in favour of the Chairman of the Meeting.
6. A proxy need not be a member of the Company.
7. To be effective, the proxy form must be received by the Company at its registered office, Level 11, 151 Macquarie Street, Sydney NSW 2000, or received by facsimile on (02) 8298 2060 not less than forty-eight (48) hours before the time for holding the meeting.
8. For the purposes of section 1109N of the Corporations Act 2001 (Cth), the Directors have set a snapshot date to determine the identity of those entitled to attend and vote at the meeting. The snapshot date and time has been set at 7pm (Sydney time) on 14 November 2012.

Schedule 1

Mr Stephen Fabian – *Non-Executive Director*

Mr Fabian is the founder of SAFM Brazil, and is a qualified mining engineer with over 25 years of experience in the mining finance sector. His career spans across the mining and finance industries and includes past positions with County NatWest in Australia and London and Rock Capital Partners in the United Kingdom.

Mr Fabian was instrumental in the founding of Ferrous Resources Limited, a company developing iron ore properties in Brazil. He is an advisor to the Baker Steel Resource Trust (“BSRT”), which is listed on the London Stock Exchange. BSRT presently holds an investment in SAFM. He is also Chairman of Kincora Copper Limited and a non-executive director of REB Gold and Ironstone Resources.

Mr Stephen Turner – *Non- Executive Director*

Mr Turner is a Chartered Accountant. He was the Chief Executive Officer of International Ferro Metals Limited for seven years. International Ferro Metals Limited is a South African based integrated mining and smelting company which produces over 3% of global ferrochrome supply and is listed on the London Stock Exchange. Mr Turner is now its Non-executive Deputy Chairman.

Mr Turner is the Non-executive Chairman of Vantage Goldfields Limited, an Australian gold company operating in South Africa, a Non-executive Director of Iluka Resources Limited, the world’s largest producer of zircon and a Non-executive director of Timpetra Resources Limited, a junior gold exploration company. Mr Turner has delivered resource projects in Australia, Southern Africa, Fiji, New Caledonia and the Solomon Islands. He was a founding director of the Australian subsidiary of PSG Investment Bank, then South Africa’s fifth largest investment bank.

Mr Wayne Kernaghan – *Non-Executive Director*

Mr Kernaghan is a member of the Institute of Chartered Accountants in Australia, a Fellow of the Australian Institute of Company Directors, and member of the Institute of Chartered Secretaries and Administrators.

Mr Kernaghan brings to SAFM more than 25 years’ experience in the mining industry as a Director and Company Secretary with a number of resources companies listed on the Australian Securities Exchange and London Stock Exchange. Companies that Mr Kernaghan has worked with include International Ferro Metals Limited, Cullen Resources Limited, Gulf Industrials Limited and Vantage Goldfields Limited.

Schedule 2

The Company Secretary
South American Ferro Metals Limited
Level 11, 151 Macquarie Street
Sydney, NSW
2000

10 October 2012

South American Ferro Metals Limited ACN 128 806 977

In accordance with the provisions of s329(1A) of the Corporations Act 2001, I being a Director and shareholder of South American Ferro Metals Limited, requests that the Company convene a General Meeting, failing which I intend to myself convene a General Meeting of the Company to consider and if thought fit, pass the following resolutions:

- “that Grant Thornton Audit Pty Ltd be removed as auditors of the Company” and
- “that Ernst & Young be appointed auditor of the Company.”

The key reason for the change of auditors arises because, Ernst & Young have offices in both the cities in which SAFM operates and therefore having one audit firm for the Company and its controlled entities will result in a more efficient audit process and is in the best interests of the Company and its shareholders.

Yours sincerely



Stephen Turner
Director