



30 January 2013

ASX Announcement

ASX Code: SFZ

QUARTERLY ACTIVITIES REPORT FOR THE THREE MONTHS ENDED 31 DECEMBER 2012

Highlights:

- **No reportable accidents or environmental incidents for the quarter, maintaining SAFM's exemplary safety record. This impeccable safety record has been maintained since the commencement of operations in November 2010.**
- **Record quarterly ROM and Beneficiated production reported for the quarter.**
- **Record quarterly sales volumes reported, with strong market acceptance by customers.**
- **Improvements to water reticulation and the replacements in screen decks have resulted in a decrease in unscheduled shutdowns and a corresponding increase in production levels.**
- **Selling prices for all products improved throughout the quarter.**
- **The Stage II Concentrator remains on schedule for commissioning on 1 April 2013.**

South American Ferro Metals Limited (ASX: SFZ) ("SAFM" or the "Company"), the only ASX-listed pure play iron ore company currently producing in South America, provides the following commentary for the three months ended 31 December 2012, to be read in conjunction with Appendix 5B.

SAFM Chief Executive Officer and Executive Director Philip Hopkins said:

"The difficulties experienced with suspended solids being returned to the plant in the water system throughout the September 2012 quarter were resolved and it was encouraging to see the elimination of unscheduled plant shutdowns that were a direct result of those issues.

We welcomed the improvement in pricing as the quarter progressed, which resulted in higher than anticipated reported turnover by SAFM for all of its products. This return to more stable pricing is expected to continue through the March 2013 quarter which will in turn have a positive impact on operating cash flow."



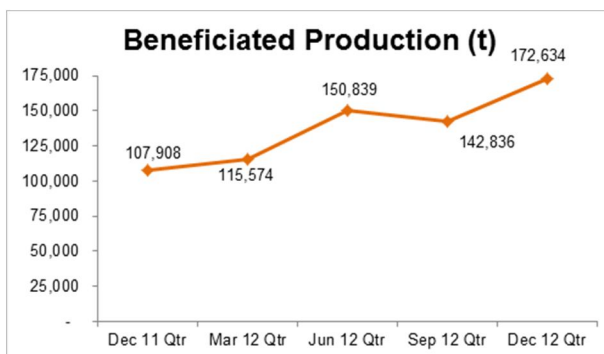
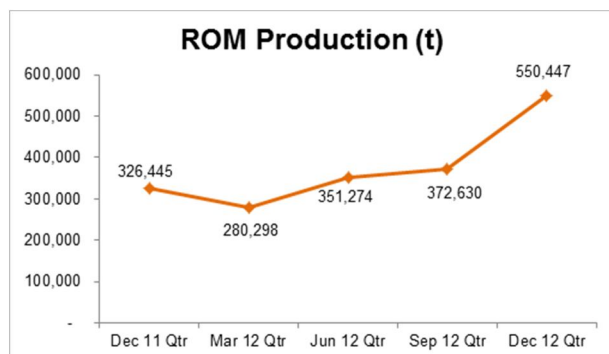
1. Safety and Environment

SAFM's safety and environmental performance underpins the Company's license to operate and grow in Brazil. There were no reportable accidents or environmental incidents during the December 2012 Quarter, continuing SAFM's unblemished record since the commencement of mining in November 2010.

2. Production volumes

Production volumes

(tonnes)	Sep 12 Qtr (tonnes)	Dec 12 Qtr (tonnes)	Movement (tonnes)	Movement (%)
ROM production	372,630	550,447	177,817	48%
Beneficiated production	142,836	172,634	29,798	21%
Finished stock at Ponto Verde at end of Quarter	42,244	30,497	(11,747)	(28%)



SAFM posted record ROM and Beneficiated production during the quarter.

The Beneficiated production increased significantly as a result of the ramp up of Concentrate production, as well as improvements to water reticulation and the replacements in screen decks that were installed in September 2012.

ROM production increased to 550,447 tonnes for the quarter resulting in SAFM reaching its full licensed capacity for the 2012 calendar year.

Beneficiated stock on hand reduced during the quarter, as well as during the month of January 2013.

Upon completion of its Stage II Concentrator project in April 2013, SAFM anticipates an additional step up of Beneficiated production in the June 2013 Quarter.



3. Sales Update

Sales volumes

(tonnes)	Sep 12 Qtr (tonnes)	Dec 12 Qtr (tonnes)	Movement (tonnes)	Movement (%)
Sales volumes – Sinter Feed	62,875	60,191	(2,684)	(4%)
Sales volumes –Lump	44,494	46,753	2,259	5%
Sales volumes – Concentrate	-	77,436	77,436	100%
Sales of Beneficiated product	107,368	184,381	77,013	72%
Sales volumes – Undersize	7,734	-	(7,734)	(100%)

Sales of Beneficiated product increased by 72% in the December 2012 quarter to a record volume of 184,381 tonnes. The increase is largely due to the execution of Concentrate sales orders.

Selling prices have steadily improved during the quarter, continuing into January 2013. The Company has widened its base of customers and strong interest has been shown in its Concentrate product that has grade of around 65% Fe.

4. Stage I Concentrator

Since the commissioning of the Stage I Concentrator in June 2012, there has been a steady increase in production levels in line with the improved operating performance of the plant. December 2012 marked a record month in concentrate production, indicative of the plant operating at its design capacity.

5. Stage II Concentrator

Construction has continued throughout the December 2012 quarter and management believes that SAFM will meet its targeted completion date of 1 April 2013. Materials from the Stage I Concentrator requiring further processing are being stockpiled to ensure that there will be sufficient feed for the Stage II facility on its completion.

6. Definitive Feasibility Study Update

The Definitive Feasibility Study (“DFS”) for the mine site expansion to 8 Mtpa has progressed, reflecting more positive than expected preliminary outcomes in the transport logistics study. As announced during the quarter, the timeline for the completion of the DFS has been revised from July 2013 to November 2013. This was to accommodate the increase in the scope of works resulting from the inclusion of additional logistics planning and design elements.

7. On Site Improvements

Projects completed during the quarter included the southern bridge repair, construction of the temporary office/mine buildings and the erection of the park fence (in compliance with the mining license agreement).

SAFM is currently progressing with construction of its on-site laboratory (expected completion date: 17 February 2013) and a second weigh-bridge (expected completion date: April 2013).

8. New Chief Operating Officer

Mr Jairo Leal joined SAFM as COO replacing his predecessor, Helvecio Pires whose contract with the Company had been completed. Mr Leal has 25 years of experience in operational aspects of the Brazilian Iron Ore environment having come from Namisa Ltd, a major offtake customer for SAFM in Brazil. He commenced work with the Company on 3 December 2012.



9. Updated JORC Resource Statement

On the 16 November 2012, the Company released updated resource numbers. The JORC resource has increased to 277.9 Mt at 41.3% Fe, which comprise of Measured Resource of 70.4 Mt at 41.64% Fe, an Indicated Resource of 100.13Mt at 40.97% Fe, and an Inferred Resource of 107.37 Mt at 41.39% Fe. The updated Resource statement significantly increases the previous Measured and Indicated components of the Resource from 60 Mts at 41.61% Fe to 170.53 Mt of 41.25% Fe - an increase of around 180% and will support SAFM's first stage expansion program to 8 Mtpa.

10. Cash Flow from Operations

SAFM recorded a negative cash flow from operation of \$1.2 million for the December 2012 quarter, as a result of large sales contracts executed in December 2012, with payment expected to be received in January 2013. The Company's capital projects amounted to cash expenditure of \$1.995 million, being predominantly the Stage II Concentrator project and the DFS work. SAFM utilised \$450,000 of its loan facilities in Brazil with Itau Bank to finance the above outflows, leaving a cash balance of \$1.477 million at 31 December 2012. The forecast cash flow generated from operations is expected to continue to fund its current capital expenditure programme.

--Ends--

For more information:

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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.

Competent Persons

Information in this statement that relates to the JORC resource at Ponto Verde is based on information compiled by Mr Bernardo Hurta de C Viana (Phase I) and Mr Porfirio Cabaleiro (Phase II) both of Coffey Mining (Brazil). Both are Members of the Australasian Institute of Mining and Metallurgy. Mr Viana and Mr Cabaleiro have 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 and Mr Cabaleiro have consented to the inclusion in this announcement of the statements based on his information in the form and context in which they appear.

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