

QUARTERLY ACTIVITIES REPORT

FOR THE THREE MONTHS ENDED 31 DECEMBER 2011

- No reportable accidents or environmental incidents for the period. One-year accident free achieved in November 2011
- Maiden JORC-compliant resource of 230.6 Million tonnes (Mt) at 44.52% Fe with grade cut off of 30% Fe applied. This Resource includes a Measured and Indicated component of 60.6Mt at 41.61% Fe¹ with an Exploration Target of between 300 and 350 Mt at a range between 40% and 44 %Fe²
- Quarterly ROM production increased 12% to 326,445 tonnes from the Ponto Verde Iron Ore Project in Brazil, despite heavy rain in December 2011
- Beneficiated production for the Quarter was 107,908 tonnes, a decrease of 13% from the previous Quarter. The beneficiation decrease was the result of the one-in-100 year rain event in Minas Gerais in December
- Net operating cash flow of \$1.2 million generated during the Quarter
- Cash on hand of \$7.5 million at 31 December 2011; an increase of 6% from the previous Quarter
- Steel erection work on the concentrator commenced on schedule during the Quarter, however wet weather disrupted construction, delaying expected project completion by one month to end April 2012

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 December 2011, to be read in conjunction with the Appendix 5B.

SAFM Chief Executive Officer Philip Hopkins said:

"Owing to the heavy rain that has affected mining across the region, Quarterly production from Ponto Verde decreased by 13% during the Quarter. Our product mix changed during the Quarter in response to market conditions, demonstrating the flexibility of the plant and the prudent approach of management which has left the company well positioned financially. Furthermore, our announcement of a maiden JORC resource in December 2011 has reaffirmed the world class nature of the Ponto Verde deposit, and combined with one-year of ongoing production, leaves SAFM well positioned to consider growth opportunities."

¹ Coffey Mining, December 2011 – see SAFM ASX announcement dated 23 December 2011



1. Safety and Environment

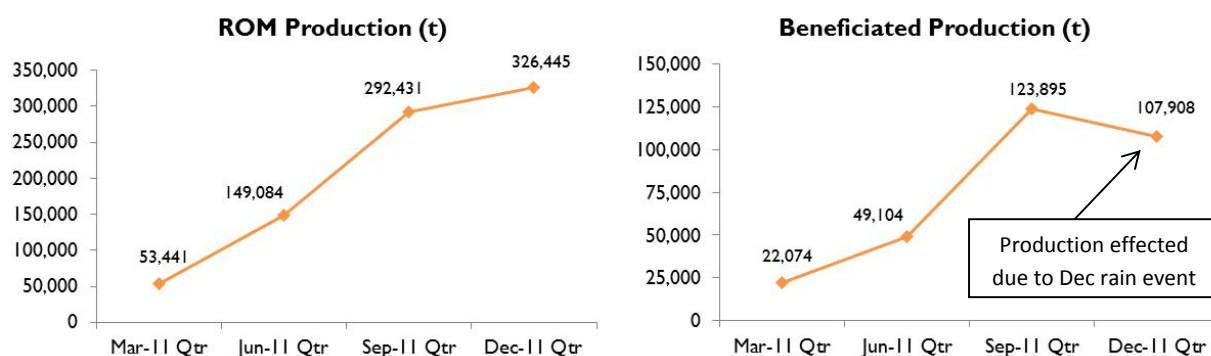
There was no reportable safety or environmental incidents during the Quarter. This track record of safety performance continues the unblemished thirteen month trend from SAFM's commencement of mining in November 2010.

During the Quarter, an inspection was undertaken by the Public Minister responsible for the environment to evaluate SAFM's progress on meeting its environmental requirements and on the reclamation work associated with the legacy environmental matters inherited as part of the mining permit conditions. Highly supportive feedback was received from the Minister due to the quality of the work carried out, as well as the additional effort that has led to this work being completed ahead of schedule.

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

2. Production

	December 2011 Quarter (tonnes)	September 2011 Quarter (tonnes)	% movement
ROM production	326,445	292,431	12%
Beneficiated production	107,908	123,895	(13%)
Finished Stock at Ponto Verde at end of Quarter	1,866	42,390	



As shown in the graph above, beneficiated production decreased on a quarter-by-quarter basis following heavy rains experienced in the region. In December 2011, the "one-in-100-year" rain event in Minas Gerais resulted in curtailed iron ore production from the region.

Demand for product has led to a change in the mix of products during the period, with the production of Small Lump reduced and output of Sinter Feed increased in response to market conditions.

Increased iron production will be realised once the Ponto Verde concentrator is commissioned in the second quarter CY2011 which will recover the fine iron ore material that is currently being stockpiled.



3. Resource Definition Programme

During the Quarter, SAFM completed Phase I of its Resource Definition Programme, confirming a maiden JORC-compliant resource of 230.6 million tonnes at 44.5% Fe, according to Independent Mining Consultant Coffey Mining. This JORC resource will help to underpin SAFM's strategy to expand processing at Ponto Verde to 6 - 10 million tonnes a year for more than 20 years. Importantly, approximately 60 million tonnes at 41.61% Fe, representing 26% of the Resource has been categorized as Measured and Indicated, with the balance of 170 million tonnes at 45.55% Fe being categorized as Inferred. This confirms the confidence in the quality and continuity of the resource. For more details on the JORC resource, please refer to the company's ASX announcement dated 23 December 2011.

An exploration target has been set of between 300 million and 350 million tonnes at a range of between 40% and 44% Fe. The basis for these estimates is based on the Ponto Verde Mine JORC Resource Report prepared by Coffey Mining dated 23 December 2011².

4. Markets

Despite downward pressure in the domestic iron ore market due to declining international iron ore prices during the period, SAFM maintained a stable price for Small Lump due to the production of high quality of Small lump (Porosity and clean washing characteristics) ore. Although the price received for Small Lump product was maintained, the ability to sell all of this product was reduced, requiring the adjustment in early October 2011 of the plant screens in order to produce a higher ratio of Sinter Feed. This action resulted in reduced overall recovery of ROM to product and a reduced level of Small Lump production. Sinter Feed sales and pricing remained consistent through the Quarter.

5. Turnover

	December 2011 Quarter (tonnes)	September 2011 Quarter (tonnes)	% movement
Sales volumes – Sinter Feed	89,269	86,445	3%
Sales volumes – Small Lump	37,426	40,321	(7%)
Sales volumes – Undersize	70,234	-	-
Sales volumes – ROM	43,741	-	-

Small Lump product from Ponto Verde continued to be sold to the local market through relatively short-term contracts while Sinter Feed remains on long-term sales contracts. At the end of the Quarter, terms and conditions were being finalised to extend the Sinter Feed sales contract beyond the end of the March 2012 Quarter. The opportunistic sale of fixed quantities of ROM and Undersized were undertaken to enhance cash flow.

² The potential quantity and grade related to Exploration Targets in this report is conceptual in nature as there has been insufficient exploration to define a Mineral Resource. It is uncertain if further exploration will result in the determination of a Mineral Resource.



6. Cash Flow

Despite the change in the product mix and the heavy rain, strong cash flow was maintained for the Quarter with cash on hand of \$7.5 million at 31 December 2011. This solid net cash position, in spite of lower-than-planned sales, was due to the effective management of working capital, cost controls and timing of capital expenditure.

7. Concentrator Construction

Construction work on the concentrator continued on schedule during the Quarter until the Ponto Verde site experienced the heavy rain that swept Minas Gerais in December 2011. As a result of the heavy rains and restrictions on local staff working on site during bad weather, construction of the project was delayed during December 2011, with full concentrator production now scheduled for April 2012, a month later than previously forecast.

8. Continuous Improvement

Our local team at Ponto Verde maintained a focus on continuous improvement during the Quarter with the following activities and achievements being met:

- The bridge over the river to the south of the site was replaced;
- Design of the planned new site infrastructure was completed with the project remaining on budget and on schedule;
- The design and equipment selection for the on-site assay laboratory was completed with the project remaining on cost and schedule;
- The fit out of the core shed was completed;
- A strong site housekeeping emphasis was maintained with a focus on stores management and scrap metal removal;
- The site safety representative system was established;
- The site area and operations safety inspection program was implemented; and
- The contractor mining safety training, inspection and audit system was designed and implemented.

9. Conversion of Performance Shares

In October and December 2011, the milestones for the conversion of Class C and Class B Performance Shares under the Share Sale agreement were met by SAFM.

Based on the achievement of these milestones, 83,977,967 Class C Performance Shares and 83,977,967 Class B Performance Shares were converted to 167,955,934 fully paid ordinary SAFM shares ("Ordinary Shares") effective from 27 October 2011 and 28 December 2011, respectively.

Each holder of Class B and Class C Performance Shares received the equivalent number of Ordinary Shares, which rank pari passu in all respects with existing ordinary shares in issue, from the Conversion date.



10. Key Milestones for FY2012

Milestone	Expected Timing
Decision regarding commencement of Bankable Feasibility Study for expansion	Q3 FY2012
Decision regarding Scope of Works for, and commencement of, Phase II of Resource Definition Programme	Q3 FY 2012
Completion of concentrator construction and commissioning	End of April 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 exploration results and the Mineral Resource is based on information compiled by Bernardo Horta Cerqueira Viana of Coffey Mining (Brazil) 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.

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