

QUARTERLY ACTIVITIES REPORT FOR THE THREE MONTHS ENDED 30 JUNE 2012

Highlights:

- No reportable accidents or environmental incidents for the quarter or for the full year, maintaining exemplary record since start-up.
- Beneficiated production for the June 2012 Quarter was 150,839 tonnes, an increase of 31% from the March 2012 Quarter, setting a new quarterly production record.
- ROM production of 351,274 tonnes was 25% higher than during the previous three-month period and sets a new quarterly production record.
- Operational performance benefited from the introduction of a 24 hours-a-day, 7 days-a-week process plant production shift and the installation of a cone crusher.
- Stage 1 of Concentrator commenced in late May 2012 with ramp up continuing through the remainder of the Quarter. Optimisation of Concentrate quality and plant performance currently being undertaken.
- Strong operating cash flow for the quarter, boosted by sales of fines and mine waste.

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 30 June 2012, to be read in conjunction with the Appendix 5B.

SAFM Chief Executive Officer and Executive Director Philip Hopkins said:

"SAFM completed its first full financial year of production by setting new records for both ROM material processed and beneficiated output. The installation of the cone crusher and the introduction of 24/7 shift patterns have resulted in a material improvement in performance and has provided us with greater operational flexibility. Additionally, the successful start-up of the Concentrator has added another dimension to the project and a new product to our offering and we look forward to bringing the Concentrator to full capacity in the current quarter. I would also like to take this opportunity to thank the SAFM team for their outstanding contribution over the past 12 months during which time we have made considerable progress in advancing SAFM as a successful, sustainable iron ore producer with a unique focus among our ASX-listed peers."



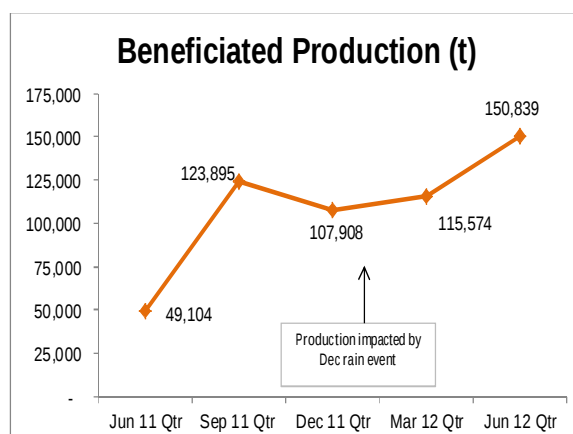
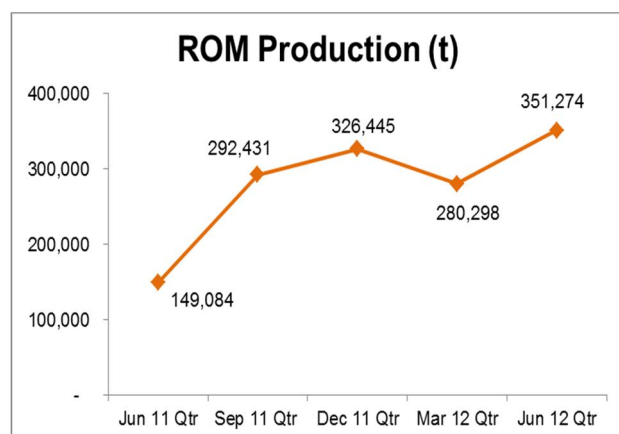
1. Safety and Environment

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

2. Production and sales volumes

Production volumes

(tonnes)	Sept 11 Qtr	Dec 11 Qtr	Mar 12 Qtr	Jun 12 Qtr	Year Ended 30 June 2012
ROM production	292,431	326,445	280,298	351,274	1,250,448
Beneficiated production	123,895	107,908	115,574	150,839	498,216
Finished stock at Ponto Verde at end of Quarter	42,390	1,866	5,459	6,777	6,777



The June 2012 Quarter marked the end of the first full year of production from Ponto Verde, and the end of a period of transformation for the project overall.

A move to a 24 hours-a-day, 7 days-a-week shift pattern assisted SAFM to set quarterly production records at both the beneficiated and ROM levels, with 351,274 tonnes of ROM material produced and beneficiated production of 150,839 tonnes of Sinter feed, Lump and Concentrate product.

Operational performance also benefited from the installation of a cone crusher in early May 2012 to replace the secondary jaw crusher within the plant.

Strip ratios were lower following work to prepare the bench faces carried out during the March 2012 Quarter.



Sales volumes

(tonnes)	Sep 11 Qtr	Dec 11 Qtr	Mar 12 Qtr	Jun 12 Qtr	Year ended 30 June 2012
Sales volumes – Sinter Feed	86,445	89,269	71,228	94,371	341,313
Sales volumes –Lump	40,321	37,426	40,753	55,150	173,650
Sales of Beneficiated product	126,766	126,695	111,981	149,521	514,963
Sales volumes – Undersize	-	70,234	56,870	102,884	229,988
Sales volumes – ROM	-	43,741	6,132	-	49,873

SAFM ended the financial year with record production and sales volumes, by posting an increase of 31% in production and 34% in sales from the previous quarter. Unaudited Production and Sales volumes of beneficiated product totalled 498,216 tonnes and 514,963 tonnes respectively, for the financial year ended 30 June 2012.

3. Concentrator Update

Stage I

The first stage of the Concentrator commenced in late May 2012 with initial production of 1,683 tonnes of concentrate to 30 June 2012. Quality and iron content of 64-65% Fe were in line with expectations and optimization for full production levels of approximately 700 tonnes per day is expected to be achieved in the current quarter.

Stage II

The study for installation of Stage 2 of the Concentrator was completed and is now under review with a decision expected in August 2012.

Resource Definition Programme Update

Phase II of the Resource Definition Programme announced in February 2012 continued during the Quarter, though progress was slowed by difficult drilling conditions within the deeper holes to the west of the target area. These holes are more than 300 metres in depth and are being drilled on the hillside adjacent to the leases owned by Vale.

As the Quarter ended, SAFM was drilling the final two holes of the Programme, with the JORC Resource update on schedule for the end of September 2012.

4. Definitive Feasibility Study Update

Work continued on the Definitive Feasibility Study ("DFS") to expand Ponto Verde to capacity of 8 Mtpa ROM throughput, with initial ore test work demonstrating the potential for reductions in anticipated capital expenditure. The DFS is progressing on schedule with the final report due by late March 2013.

5. Markets

Strong product sales continued throughout the quarter resulting in low inventory levels at the end of the quarter. Lump sales strengthened during the quarter with new customers expressing interest in the product.



6. Continuous Improvement

The management team at Ponto Verde maintained a focus on continuous operational improvements during the quarter with the following activities and achievements recorded:

- Successful installation of the cone crusher to replace the secondary jaw crusher.
- Construction work commenced on the on-site assay laboratory. This new facility will allow for better control over product grades, and therefore on product quality, through accelerating the time required to process mine samples from the current three days to an anticipated two to three hours.
- Temporary office and cafeteria facilities were added to the site to support work by on site contractors and to improve staff support services.

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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.

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