



QUARTERLY ACTIVITIES REPORT

For the period ended 31 December 2011

FOR THE QUARTER TO 31 DECEMBER 2011

HIGHLIGHTS

- **Maiden Mineral Resource at Gema Verde Iron Ore Project in Northern Minas Gerais, Brazil**
 - 458.5Mt @ weighted average grade of 18.0% Fe, at 14% Fe cut-off grade
 - 50% of Resource is in the Measured category and 36% is in the Indicated category
 - Low strip ratio expected as mineralisation outcrops at surface with gentle dip to the east
- **Maiden Mineral Resource estimate for Josilene-Scorpion prospect at Rio Pardo project due mid-2012**
- **Metallurgical test work ongoing at Gema Verde project and Josilene-Scorpion prospect**
- **Pre-feasibility work ongoing and Pre-feasibility Study for both projects is due H2, 2012**

Brazilian Metals Group Limited (ASX: BMG, BMGO) made solid progress in the December 2011 quarter towards its goal of developing a large scale iron ore export mining operation at its two core projects - the Gema Verde and Rio Pardo projects - in northern Minas Gerais State, in Brazil.

The Company's exploration efforts continued to focus on the Gema Verde project and the Rio Pardo project. The highlight of the quarter was a maiden 458.5Mt Mineral Resource at the Gema Verde project. At the Rio Pardo (Josilene-Scorpion prospect) infill drilling was ongoing and is anticipated to deliver a maiden Resource estimate by mid-2012. Pre-feasibility work at both projects is now underway and the Company expects to complete the pre-feasibility study on both projects in 2012.

Consistent with its strategy, the Company is continuing to evaluate new opportunities in the region to complement its existing large scale projects.

MAIDEN 458.5Mt MINERAL RESOURCE AT GEMA VERDE PROJECT

During the quarter, the Company announced a maiden Mineral Resource estimate in accordance with the JORC code for its Gema Verde Iron Ore Project in northern Minas Gerais, Brazil. The Resource statement was;

458.5Mt @ average grade of 18.0% Iron (Fe) with 50% in the Measured category and 36% in the Indicated category, at a 14% Fe cut-off.

The Mineral Resource estimated includes:

- **230.0Mt @ 19.0% Fe in the Measured Category;**
- **166.5Mt @ 16.7% Fe in the Indicated Category; and**
- **62.0Mt @ 17.5% Fe in the Inferred Category.**

The Resource was based on 41 diamond drill holes for 6,828 metres and 22 reverse circulation drill holes for 2,487 metres. Metallurgical test work is underway on the diamond core. The Company expects that the Gema Verde project will have a low strip ratio as the mineralisation outcrops at surface and has a gentle dip to the east.

About the Gema Verde Project

BMG entered into an agreement to acquire 100% of the Gema Verde iron Ore Project in April 2011. The project covers four granted Exploration Licences over a total area of 75.6km². The Company has conducted infill drilling, re-logging and re-sampling of drill core from 2008, as well as supplementary analysis to enable the estimate of the mineral Resource.

The Gema Verde deposit is a Rapitan-type iron deposit, a Neoproterozoic type of iron-formation characterised by their distinct association with glaciomarine sediments. Examples include the Rapitan Group (Canada), the Yudnamutara Subgroup (Braemar Iron Formation - Australia), the Chuos Formation (Namibia), and the Jacadigo Group and Macaubas Group in northern Minas Gerais, in Brazil. The Macaubas Group, which hosts the Gema Verde deposit, was first explored in 1964-78 by Vale and more recent work has established a firm foundation for a large iron ore industry in the area with extensive surface indications of iron mineralisation. The Rio Pardo Project straddles the northern extensions of the known mineralised area.

Geological Overview

Mineralisation at the Company's Gema Verde Iron Ore Project, is associated with hematite-rich diamictites (glaciomarine sediments) and, subordinately, to hematite quartzites and rare layers of hematite schist, all belonging to the Riacho dos Poções Member of the Nova Aurora Formation.

Three phases of deformation are recognised in the mineralised zones. The mineralised diamictites are embedded in less mineralised diamictite packages both on the hangingwall and footwall. The main ore minerals are lamellar and granular maghemite, hematite and goethite with magnetite being rarely associated. Enriched iron grades are distributed towards the top and bottom of the mineralised layer with lower grades in the central part.

Gema Verde Project Characteristics

Several large iron deposits in the northern Minas Gerais province are currently being studied at definitive feasibility level. Iron ore deposits in south east Brazil are substantially different from equivalent deposits in Australia or West Africa. Generally operating costs in Brazil are lower than for beneficiated ore deposits in Australia, and the barriers to reaching production are significantly lower than in west or central Africa due to the better infrastructure in Brazil.

Low operating costs are possible because of the favourable metallurgical characteristics of the mineralisation allowing beneficiation to pellet feed grades - as has been demonstrated by Honbridge at its Block 8 deposit (which is contiguous with the Gema Verde deposit). Strip ratios at Honbridge's Block 8 deposit range from 0.2:1 to 0.6:1 with an outcropping ore-body with a gentle dip. The Gema Verde deposit is the southern extension of Block 8 with similar characteristics.

EXPLORATION PROGRESS

Rio Pardo Project

In addition to the new Resource estimate at Gema Verde, the Company continued its exploration programs at the Josilene-Scorpion prospect, at its Rio Pardo project during the quarter.

In-fill drilling for resource definition at Rio Pardo (Josilene-Scorpion prospect) is anticipated to deliver a resource estimate by mid-2012. The Exploration Target at the Josilene-Scorpion prospect is 2-3Bt @ 16.2%-18.5% Fe. This is based on surface mapping and drilling over a 13km strike length, plus 28 RC holes to date. The potential quantity and grade is conceptual in nature. There has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource.

Metallurgical test work was ongoing at the Josilene-Scorpion prospect in the December quarter, and infill drilling will be conducted in 2012, prior to the planned confirmation of a JORC Resource at the project by mid this year.

PROJECT ASSESSMENT AND OPTIMISATION

Consistent with BMG's strategy to develop a substantial iron ore mining operation in northern Minas Gerais, in Brazil, the Company has continued to assess potential new project opportunities in the area and manage its tenement holdings.

In September 2011, the Company announced it had entered into an option agreement to acquire the Catuti block of tenements in the region, subject to assessment during an evaluation period. BMG has now completed its evaluation process over the block, which included a technical assessment of the tenements, and has elected not to proceed with the acquisition.

ENDS

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APPENDIX

Gema Verde Resource Estimate

The Gema Verde Resource has been classified as a Measured, Indicated and Inferred Mineral Resources in accordance with the JORC code based on the assessment of the input data, geological interpretation and grade estimate quality.

A total Mineral Resource of 782Mt at 15.54% Fe with no grade cut-off applied, has been estimated for the enriched mineralized horizons of the Gema Verde deposit. The estimate of resource is quoted below at a cut-off grade of 14% Fe.

Brazilian Metals Group Ltd Gema Verde Deposit Mineral Resource Table Grade Tonnage – Total Mineralised Zones – 14% Cutoff Applied						
Resource	Tonnes (Mt)	Fe%	SiO₂%	Al₂O₃%	P%	LOI%
Measured	230.0	18.97	63.46	4.01	0.140	1.99
Indicated	166.5	16.73	65.39	4.83	0.160	2.10
Measured + Indicated	396.5	18.03	64.27	4.35	0.148	2.04
Inferred	62.0	17.52	63.24	4.79	0.180	2.09
Total	458.5	17.96	64.13	4.41	0.153	2.04

The information in this report that relates to Exploration Results, Mineral Resource or Ore Reserves is based on information compiled by Phillip Fox, who is a Member of the Australian Institute of Geoscientists. Phillip Fox is a full time employee of Brazilian Metals Group Ltd.

Phillip Fox has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity in which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australia Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Phillip Fox consents to the inclusion in the statement of the Mineral Resource in the form context in which it appears.

Exploration Results and Mineral Resources

The information in this report that relates to Exploration Results and Exploration Targets is based on information compiled by Malcolm Castle, who is a Member of the Australasian Institute of Mining and Metallurgy ("AusIMM"). Mr Castle is the principal consultant geologist with Agricola Mining Consultants Pty Ltd and is the Executive Technical Director of Brazilian Metals Group Limited. He has sufficient experience relevant to the style of mineralisation and type of deposits 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 of Exploration Results, Mineral Resources and Ore Reserves". Mr Castle consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

Exploration Targets

The exploration targets at Josilene-Scorpion are estimated from geological information including drill holes, outcrops and geological information and are shown as a range. The potential quantity and grade is conceptual in nature. There has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource.