

STRATEGIC METALS

Your monthly guide to the latest information on the world's strategic metals

3M's Rising Once Again

In the world of specialty metals, three are of growing interest to investors worldwide – the three Ms, Manganese, Magnesium and Molybdenum. It comes as no surprise that China continues to significantly influence the global market for these metals, recording high levels of consumption and production to feed its behemoth steel industry, even as the rest of the global market succumbed to the financial crisis and witnessed a downturn last year.

Manganese (Mn)

Manganese is a critical metal, ranking fourth in terms of annual global consumption, after only iron, aluminum and copper. **Because steel cannot be produced without it, as much as 90-95% of the total manganese produced is used in the steel industry.** Global output of manganese ore rose from 12.77 million tonnes in 2007 to 13.85 million tonnes in 2008. But the year 2009 witnessed a depressed market in response to declining output of crude steel, and leading miners adopted severe counter-measures, curbing output by 40–50% year on year.

Electrolytic Manganese prices which were around \$2650 a tonne at the end of 2009 dropped slightly and then showed an increase to \$2900 in early February 2010. As the global steel industry is now showing signs of revival, a shortfall in manganese ore stocks is putting an upward pressure on prices. **China continues to remain the largest market for manganese, accounting for 48% of the world's total consumption, but is home to only 8% of the global reserves.** The trend of increasing prices is likely to continue. As with the other metals, China is the country to watch out for.

Magnesium (Mg)

China leads the global market in consumption of magnesium and is also the largest producer of the metal, accounting for over 85% of the global production of 774,000 tonnes in 2007. However, Western nations are also expected to witness rapid growth in consumption of about 10% per annum in the coming years, exceeding 650,000 tonnes of consumption by 2010. Over the past three years, prices worldwide first tripled from a little over \$2,000 per tonne in early 2007 to a high of \$6,200 per tonne in April–May 2008 before plummeting below \$2,800 in late 2009 and then stabilizing around that level.

Molybdenum (Mo)

The global molybdenum market witnessed a tightening of supply in mid-2009, as major producers enforced savage cutbacks and China continued to pile on stocks, causing prices to spike. Prices for both ferromolybdenum and molybdic oxide nearly doubled between July and August 2009, only to plummet by 50% over the following two months. Since November, molybdenum prices have increased by almost 50% to reach \$15 per pound by January 2010, in line with the general trend in commodity prices worldwide. With demand expected to rebound this year, prices are likely to stabilize at current levels. In terms of consumption, China defied global trends last year, registering an increase of 5% in consumption even as global consumption declined by 9% over the same period. This trend is expected to continue for another five years, with the developed markets of the US, Japan and Europe together paced for a relatively slow growth in consumption, at 2% per annum, and Chinese consumption forecast to grow at an average annual rate of 9%. **Even with a major new Australian mine that is slated to start production in late 2011, the world is likely to face a deficit in molybdenum by 2014.**

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China's Appetite for Metals Expanding Beyond It's Borders

Latest Chinese Plays in the Specialty Metals Sector

Despite the continuing effects of the global financial meltdown, China is aiming for an increase of 11% in industrial output this year. Industrial production is expected to outpace economic growth, forecast at 8% for China in 2010. As most of this growth is expected to come from fewer players than in 2009, the government is aggressively promoting mergers and acquisitions in an attempt to increase industrial concentration.

Sinosteel Corporation (Beijing, China) is reported to be in talks with Australian nickel and manganese miners following its \$1.36 billion acquisition of Midwest Corporation Limited (Perth, Australia).

In the magnesium sector, **Timminco Limited (TSE:TIM) (Toronto, Canada)**, manufacturer of solar grade silicon, completed the merger of its magnesium and specialty metals business with the China-based magnesium operations of **Winca Group Incorporated (Stafford, Texas)** in July 2009. Winca owns a stake of 80.5% in the



Hanlong Mining Investment Pty Ltd, the wholly owned Australian subsidiary of **Sichuan Hanlong Group Company Limited (Chengdu, China)**, is in the process of acquiring a controlling stake of 55.3% in **Moly Mines Limited (ASX:MOL) (West Perth, Australia)**. Apart from its equity investment of \$140 million, Hanlong will arrange for up to \$500 million of debt financing for Spinifex Ridge molybdenum/copper mining project in Western Australia. Estimated to hold at least 500,000 tonnes of reserves, the deposit will enable production of 20 million tonnes per year of molybdenum for a period of 23 years.

combined venture known as **Applied Magnesium International Limited (Denver, Colorado)**. These acquisitions by Chinese companies show a trend that is likely to continue well into the future, as China seeks to secure long term resources to keep its industries growing. The country is emerging as a key player to watch out for vis a vis these metals as far as supply, demand and prices are concerned.

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The Critical Crystal Ball Predictions for Molybdenum, Manganese & Magnesium

Molybdenum prices, which had skyrocketed to \$30 per pound in 2007 only to plummet to around \$8 per pound in late 2008, began to rebound in 2009 and are now expected to soar to \$20 per pound by the end of 2010, as the global steel industry shows signs of revival.

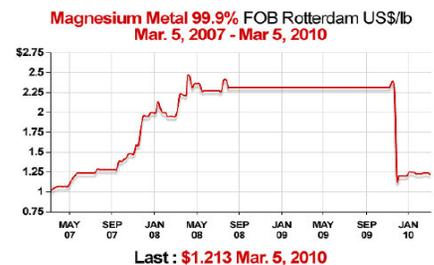
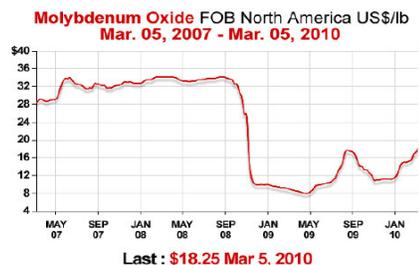
Stainless and carbon steel manufacturers in China and the developed countries have been trying to build up their stockpiles while producers are running on low inventory levels, leading to an upward pressure on prices. The only major new project currently in the pipeline is the Australian Spinifex Ridge molybdenum-copper project, which is likely to come into operation in late 2011. Overall, the world faces a deficit in molybdenum production after 2014 and the upward trend is likely to intensify.

Following a spate of fluctuations in 2009 due to the global economic crisis, manganese prices have shown a small but steady increase in the past few weeks.

Global Electrolytic Manganese prices edged up to around \$2,900 per tonne at the beginning of February this year compared to \$2,650 per tonne at the end of 2009. This is mainly due to the rising costs of the ore itself and other inputs such as selenium dioxide and sulfuric acid.

Additionally, restocking by major Chinese buyers before the Chinese New Year has contributed to the upswing in price, and the trend is likely to continue.

Magnesium prices showed an increase in late 2009, especially as the US cracked down on imports from Russia and China with anti-dumping duties. Global prices rose from \$2,750 per tonne at the end of 2009 to \$2,812.5 at the beginning of February this year. **A global glut in supply and rise in demand from automotive die-fabricators leveling out are also important factors indicating a fairly steady level of prices and supply for some weeks to come.**



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