

STRATEGIC METALS

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

Global Manganese News

Global manganese prices may have declined on the whole in recent times but the price of high grade manganese imported by China from Australia and South Africa has seen an increase. Manganese prices are a good indicator of an economy because of its importance in the manufacture of steel. The current holding pattern of the global economy is reflected in the largely unknown direction of the steel market.

The overproduction of steel in China is a matter of great concern for the global community. While the country has for long been the world's largest producer as well as consumer of steel, records show that China's production exceeded its consumption earlier this year. Roger Manser, a consultant for Steel Business Briefing, said, "The danger at the moment is that global steel production is running well ahead of steel consumption. Steel consumption is at 5-6% and global production is at 8%."

When China began importing manganese in 2010, many analysts thought that it indicated the future of the manganese market but more than increased consumption, it is now believed that it was just a sign of manganese oversupply. As of September 15, Chinese ports had manganese ore stocks of 3.710 million tons and chrome ore stocks of 2.942 million tons. The stockpiles of manganese are bringing down prices but stock owners are unlikely to sell until prices rise.

China's steel market is expected to grow well into 2012 and that bodes well for the manganese market as well. India, South Korea and Malaysia are other nations that are likely to consume large quantities of manganese. Companies across the world are preparing to take advantage of this promising manganese market.

South Africa accounts for only 15% of the global market in spite of housing almost 80% of the world's manganese deposits. The country has planned and started several large-scale manganese projects but the biggest obstacle is a logistical one. The existing shipping capacity cannot handle the projected output.

South Africa's Ntsimbintle Mining is currently working on developing the Tshipi é Ntle manganese mine near Mamatwan in the Northern Cape. The open pit mine is scheduled to begin production from 2012 and produce 2.4 million tons per year of manganese ore for the next 60 years.

The expansion of the region's railway and port capacity is crucial for the success of the project.

Significant progress is being made in the development of the 3.1 million tons per year Kalagadi manganese project at Hotazel in the Northern Cape. The mine is set to be commissioned in 2012.

Consolidated Minerals Ltd., based at Jersey in the Channel Islands, owns manganese mines in Australia and Ghana. It is currently working on a 1.5 million ton per year project in its Woodie Woodie mine in Australia. The company is one of the beneficiaries of China's high demand for manganese. Gennadiy Bogolyubov, the Ukrainian owner of Consolidated Minerals, said, "I'm a big believer in the steel industry. As long as they produce steel, there will be demand for manganese, and we feel strong demand. We have issues with the price sometimes, but not with demand. We can sell everything that we have."

In September, American Manganese Inc. (TSX:AMY) reported that initial results were excellent on their leach and solid/liquid separation pilot plant tests. Rates of extraction of 92.7% manganese recovered was achieved from coarse feed material (minus 6.35 mm) in 2 hours. Previous work done by the US Bureau of Mines (USBM) on the same resource material from Artillery Peak, found this separation to be challenging because of the clay content (montmorillonite) and lack of polyelectrolyte flocculent. Initial expectation of the pilot plant was to process 3 to 5 kg of resource material per hour. In the continuous pilot plant run, the average processing rate was 20.8 kg per hour, which greatly exceeded expectations. Success of the pilot plant operation has removed a significant amount of technical risk for the flow sheet. This bodes well for their proposed 50,000 tonne's per year production of electrolytic manganese metal in Arizona, USA.

The India based Indsil Group recently announced plans to study the potential of setting up a manganese smelter in the Sultanate of Oman. Vinod Narsiman, Managing Director, said, "It's too early to comment, but we're interested in looking at the manganese part because Oman does have grades of manganese that can be used, but not much. But we would be looking at the potential for setting up a manganese smelter from the point of view of markets in the Middle East, as well as future markets in Oman."

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Volatility Continues To Shake Up The Rare Earths Industry

After two years of continuous increase, the prices of rare earth metals seem to have reached a more balanced level in recent times. The primary causes for this change is the optimistic supply scene and the possibility of China facing legal challenges because of its export restrictions. China controls almost 97% of the global market and over the years, its export restrictions and other policies have sparked panic buying, frantic searches for alternative sources and price hikes of almost ten times in certain cases. Certain companies have also begun reducing their usage of rare earth metals.

Fixing rare earth prices is not easy given the small quantities produced and very few buyers and sellers claim to have clarity about prices. Australia's Lynas Corporation recently said that the prices of both lanthanum and cerium have dropped from the Q2 prices of \$135.02 and \$138.29 per kilogram respectively to \$92 in mid-September. Prices of both however, are still almost 18 and 25 times higher than their respective 2009 prices. According to Bloomberg, neodymium prices have fallen as well. On the other hand, prices of some of the heavy rare earth metals such as terbium have not fallen at all.

The unpredictability of China's policies has made the market unclear. As Edward Richardson, vice president of Indiana based Thomas & Skinner Inc. said, "Without dependable and consistent data, we are left with stories, anecdotes and perceptions." He is probably right when he says that volatile pricing is not likely to change any time soon.

On September 20, an analyst from J.P. Morgan Chase & Co lowered his outlook for Colorado's Molycorp Inc. citing declining rare earth prices. The announcement caused the company's share prices to fall by 22% on that day and by another 3.9% the next day to reach \$39.85. This has been its sharpest fall since its IPO in 2010. CEO Mark Smith of Molycorp said, "Although there may be some short-term fluctuations and impact related to recent speculation in China, we remain very, very bullish on the prices of these materials."

Declining rare earth prices brought down share prices of Lynas as well. On September 28, the company's shares fell by 13% to A\$1.27. Tim Schroeders from Melbourne's Pengana Capital Ltd. remarked, "It's exactly the same dynamic that Molycorp's suffering that Lynas's share price is reflecting today."

Earlier in the month, the EU disclosed that it was building stockpiles of rare earth metals to reduce dependency on China. Supplies are being sourced from non-EU regions such as Russia, Latin America and Africa. The stockpiling may affect rare earth prices in Q4 but prices are also expected to level out by then. CEO David O'Brock of Estonia's Molycorp Silmet AS said, "I think that prices have already started to stabilize. And consumers have found their upper boundaries that they can pass on to their customers. Unless the Chinese suddenly open the flood gates, I don't see prices dropping and I don't see a continued climb in the prices."

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Will the US Ever Build A Strategic Metals Reserve?

In late August, Michael N. Silver, president and chairman of the board of American Elements—a company that manufactures engineered and advanced materials—suggested that the United States should build a Strategic Metals Reserve (SMR) in an effort to protect its manufacturing and defense interests in case of an embargo by any nation, especially China. He pointed out that earlier this year China had already used its strategic position in the rare earths market against Japan.

Silver said that Congress should structure the U.S. SMR along the lines of the U.S. Strategic Petroleum Reserve (SPR). The SPR was set up in 1975 in response to the 1973–74 oil embargo.

He said, “These metals are very precious to the health of our nation. So precious that U.S. manufacturing would grind to a halt within months if cut off. The SMR is exactly the type of action the federal government should take to assure our long term competitiveness. In manufacturing, the nation that has the raw materials, wins.”

Silver pointed out that the cost of key strategic metals has increased by 25 times over the last year. He said, “Two years ago neodymium metal sold for \$35–45 per pound. Today it is \$900 per pound and climbing. All rare earth metals have risen similarly. Had America created a reserve 48 months ago, we would have experienced a windfall of epic proportions.”

He said that should the SMR be created, the U.S. would not be the first country to do so. China, which controls 97% of the rare earths market, reportedly built a reserve of over 100,000 tons beginning last year. The EU, Japan, South Korea and UK are all laying out plans to build strategic reserves. In fact the EU has already begun building its reserves by sourcing rare earths from countries other than China.

On June 24, 2011, President Barack Obama launched the Advanced Manufacturing Partnership (AMP), which is a consolidated effort to bring together universities, the federal government and industry to invest in emerging technologies that will help create high quality manufacturing jobs. Silver suggests that a part of the \$100 million planned to be used to “develop and deploy advanced materials” should be set aside to fund a study group that will explore the feasibility of an SMR.

Meanwhile, university and business partners have joined federal agencies and taken concrete steps to enhance the nation’s advanced manufacturing sector. Plans for 2012 have already been laid. Stanford University is one of the six universities selected to be part of the AMP. Universities have been included in the partnership so that they can cultivate an environment that promotes innovation and produce skilled workers and tools required to transform the manufacturing sector.

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