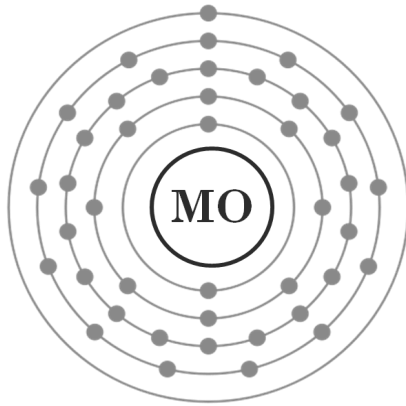




Molybdenum



***Molybdenum Market
Outlook***

CPM Group

**CPM Group Molybdenum Reception at the PDAC
March 2010**

CPM Group

30 Broad Street
37th Floor
New York, NY 10004
U.S.A.

Telephone: 212-785-8320
Fax: 212-785-8325
E-mail: moly@cpmgroup.com
Website: www.cpmgroup.com

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Molybdenum

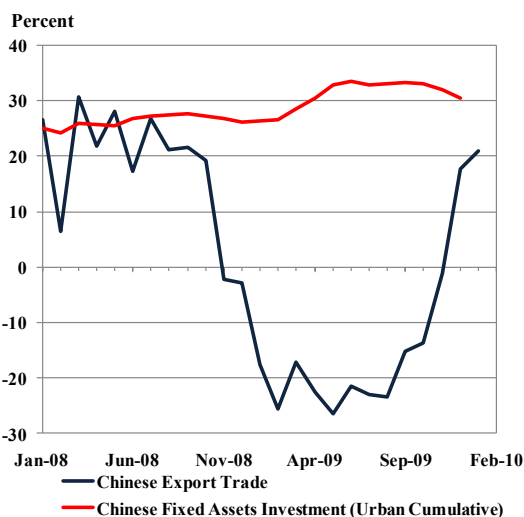
The recessionary phase of the business cycle appears to be moving toward an end in nearly all major consuming regions. The global downturn, which began roughly 18 months ago, led to a severe deterioration in the molybdenum market's supply - demand outlook. Molybdenum prices quickly headed lower in late September 2008 as the world economic environment turned decidedly worse. Prices fell from \$31.80 in October 2008 to \$7.70 in April 2009. Prices did not stay low for long. By the end of 2009 molybdenum prices had more than doubled from their lows in April despite this cyclical weakness. Molybdenum prices averaged \$13.17 during the second half of 2009, up 45.1% from the first six months of the year.

The resilience in the Chinese market due to unprecedented stimulus expenditures by the Chinese government and the inherent strength of the growing and well financed Chinese economy helped support the molybdenum market in 2009. Aside from the roughly \$500 billion allocated for infrastructure projects by the government, new loan growth in China also surged. The country has maintained positive fixed asset investment in its urban regions, which was up the more than 30% year-on-year in December. The increased availability of credit fostered this expansion with new loans nearly doubling year-on-year in 2009.

New Loans Driving Restocking in China

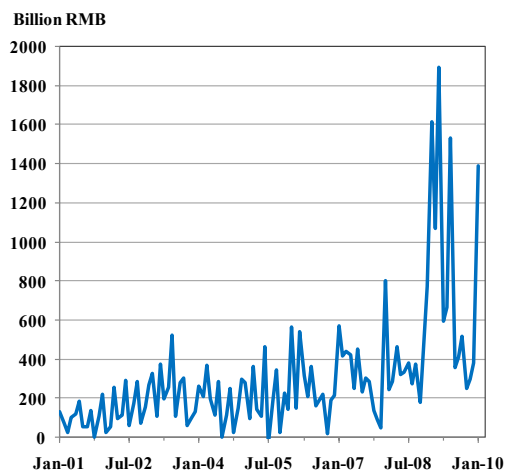
Chinese Exports and Fixed Assets Investments

Y-o-Y Change, Export data through Jan. 2010,
FAI through Dec. 2009



Chinese New Loan Growth

Monthly, data through January 2010



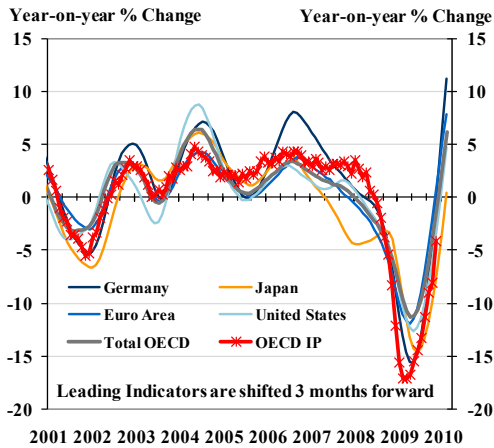
Source: Bloomberg, People's Bank of China, NBS

Outside China, improvements in industrial activity and credit provision, which grew more prominent in the fourth quarter of last year, have begun to bolster the molybdenum market. The contractions in many sectors of the real economy are decelerating.

Positive Macro Economic Signals

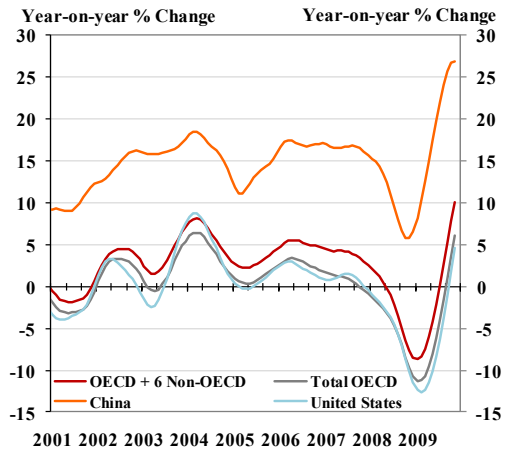
OECD Leading Indicators & Industrial Production

Monthly, U.S. & Jap. IL thru. Jan. 10 other IL thru. '09, OECD IP Nov. 2009



Select Leading Indicators

Monthly, through December 2009

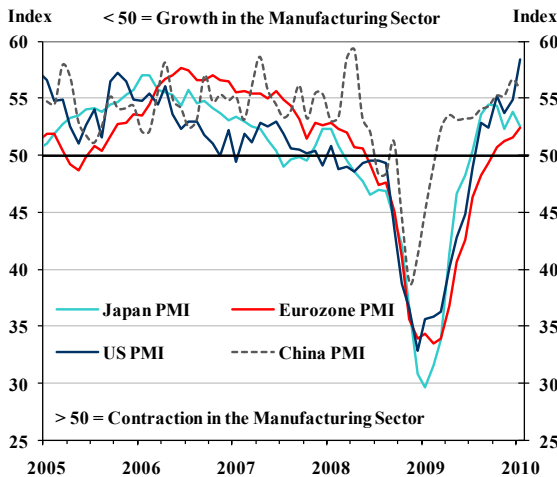


Note: Composite Leading Indicators. Source: OECD, CPM Group

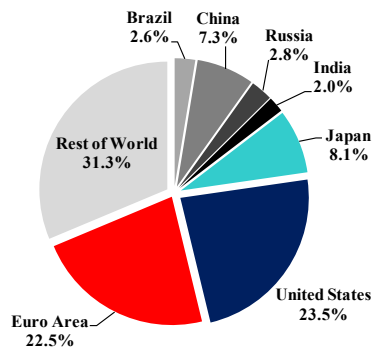
Manufacturing Sectors Expand

Regional Purchasing Managers' Indices

Monthly, PMI data is seasonal adjusted thru. Jan. 10



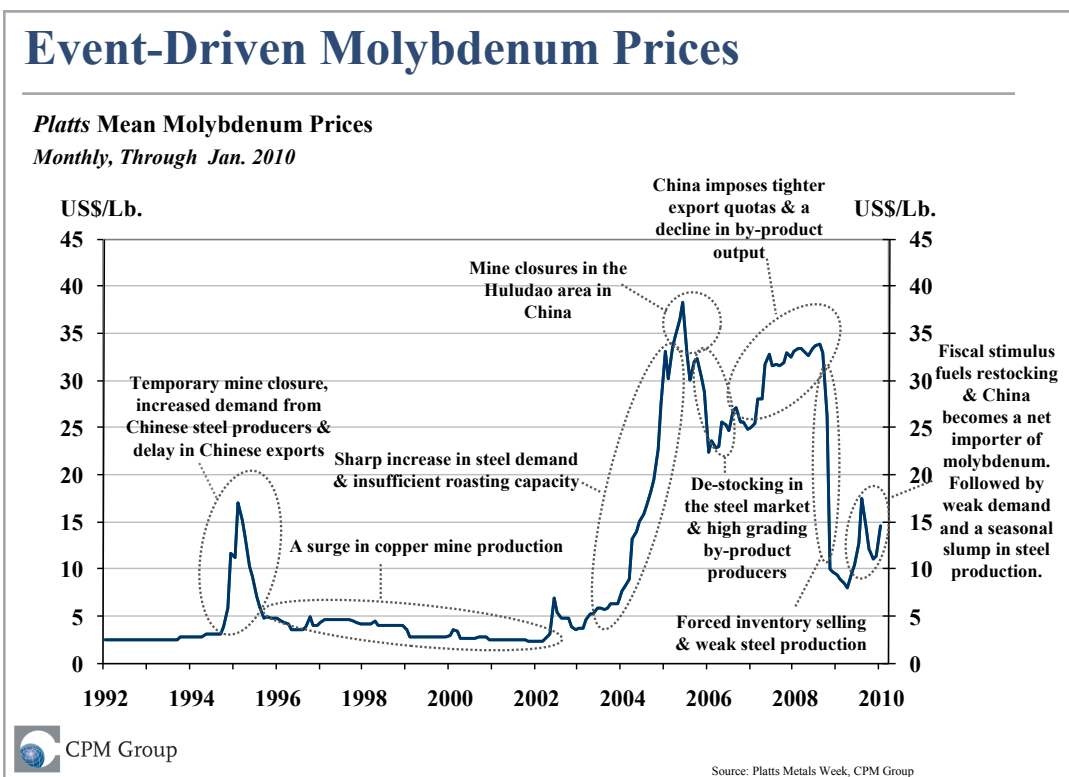
Percentage of World GDP in Current U.S. Dollars 2008



Source: IMF, Bloomberg, CPM Group

Over the next few years molybdenum remains exposed to bullish structural trends as many of the underlying themes that drove prices sharply higher in 2004 are still present. The events of the past 18 months have compounded the economic, political, and logistical constraints that were limiting producers' abilities to boost output in response to higher prices prior to 2008. Not only are lending and investment sources cautious about future commodity prices, funding for development projects is limited. Production costs are likely to face continued upward pressure after their downward stint in 2009. In addition, some of the largest new copper mines coming online over the next few years do not have recoverable molybdenum and/or are employing the leach-solvent extraction-electrowinning (SX/EW) process, both of which will limit molybdenum supplies available from new copper producers. On the demand side, the recession did not destroy the structural drivers that began during the first half of the past decade. Industrialization and urbanization trends in key emerging markets continue; large-scale infrastructure projects still need to be built around the world; anti-corrosive, strong, and light weight materials are required throughout the energy supply chain; and demand from emerging applications continues to provide new markets for molybdenum-bearing products.

Aware of these fundamentals and the potential for tight market conditions during the cyclical expansion phase, molybdenum prices were back above \$17 by the middle of February 2010. Some market participants restocked ahead of the LME's launch of a new molybdenum contract, on 22 February, expressing concern that contract's existence might boost investment activity which could easily sway the molybdenum market. With only 426 million pounds mined last year, molybdenum mine production was less than one-sixth that of the nickel market.

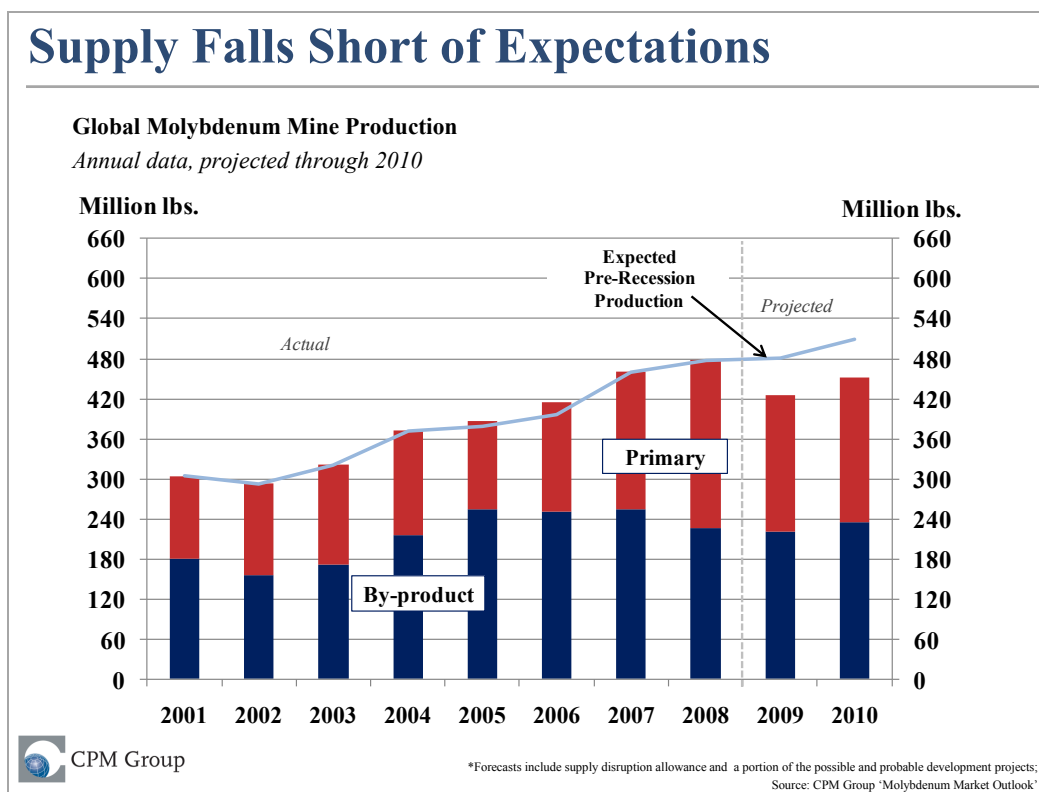


What are the supports for molybdenum's price recovery?

Supply Fundamentals

Ongoing constraints in the credit markets and the 2008 - 2009 price correction in both the molybdenum and copper markets has caused molybdenum's forward supply curve to take on a new profile, both in the near term as well as in the longer run. Project financing remains an uphill battle for virtually all of the potential new primary producers and copper producers with molybdenum as a by-product, as well as for other base metals producers.

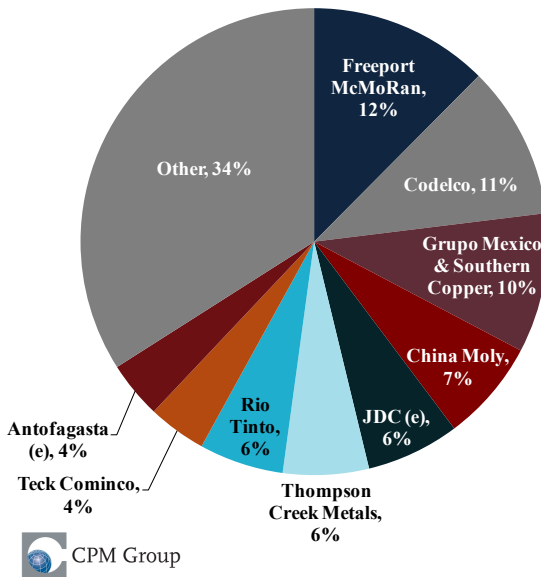
The current underinvestment in new molybdenum capacity will curb growth in supply for at least the next three years. Going forward, limited incremental output is available from existing by-product producers. Production from both new primary and by-product producers is still necessary to meet the growth in demand.



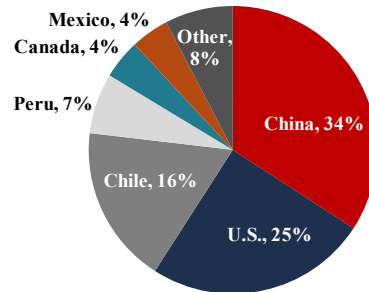
Primary producers for account nearly half of the world's output in 2009. This is up from a 30% market share in 1985. Historically primary producers have acted as swing producers by bringing their operations on and offline in response to changes in demand and prices. Last year's supply cuts by both primary producers and a few by-product producers were relatively swift compared to those seen in the past, which has prevented an excessive buildup of stocks that previously led to extended periods of weak molybdenum prices. Such shifts in behavior by producers going forward could result in a tightly balanced market.

Key Market Players

Molybdenum Market Share by Company
2009, by country



Molybdenum Production in 2009, by country



Source: USGS, RMD, CCS, WBMS, IMO, CNIA, CPM Group and Company Reports

The majority of molybdenum concentrates are sourced from a handful of companies. The top five molybdenum producing companies accounted for nearly 47% of world production in 2009. This compares to under 38% in both the aluminum and copper markets. In addition to the cuts seen at high-cost operations, primarily in China, some key market players slashed output last year to help calibrate supplies with demand. In 2009, roughly 7% of production, or 16 million pounds, was cut at existing mines in industrialized economies. CPM Group estimates that output from transitional economies fell 16% year-on-year.

Chinese Output

The dominant player on the country level is handily China, producing roughly 34% of global molybdenum mine supplies in 2009. After recording rather tremendous growth between 2006 and 2008, Chinese output dropped sharply last year. Many high-cost molybdenum miners made significant cuts in production or shuttered their operations in late 2008 and early 2009 as molybdenum prices fell below their costs of production. CPM Group estimates total Chinese supplies declined to 145.5 million pounds in 2009, a year-on-year decline of nearly 19%. This estimate differs from official Chinese statistics, which are believed to be over reporting output.

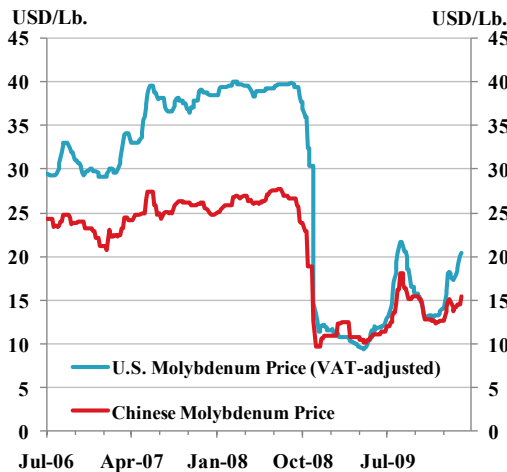
High production costs proved to be a key support for domestic prices in China throughout 2009, with Chinese operations refusing to sell metal at prices below these levels. With lower molybdenum prices abroad, imports of molybdenum into China soared. This significant stock overhang of low-cost material helped deter mine restarts.

Despite the rise in molybdenum prices, Chinese output this year is likely to come in below 2008 levels. Not only are there significant costs associated with dewatering flooded mines, high inventories of low-cost material and potential mining policy changes are expected to keep growth in Chinese output fairly constrained this year. However, growth may exceed levels seen in 2004, when prices averaged \$15.60. A mining quota, which is rumored to be enacted this year, may become an obstacle for Chinese producers.

Arbitrage Opportunities Open a Window for Chinese Imports

Chinese Ore & U.S. Molybdenum Prices (Metal Content)

Bi-weekly, Through 26 February 2010



Differential Between Chinese Ore & U.S. Molybdenum Prices (VAT-Adjusted)

Bi-weekly, Through 26 February 2010



note: not adjusted for transport costs. The differential is computed with a VAT adjustment, which would only be applicable on imports into China. Source: Metals Bulletin, CPM Group.

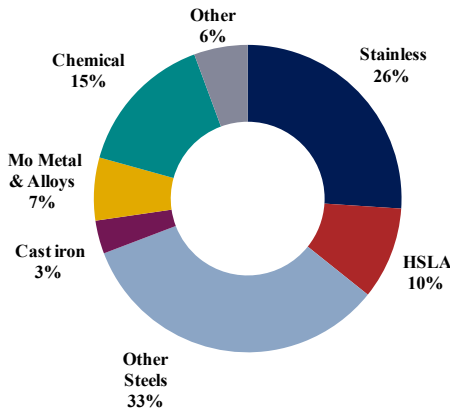
Demand Fundamentals

In line with the shift in the business cycle, molybdenum demand is expected to continue to rebound over the coming months. Fabrication demand is set to increase as consumers restock their raw material inventories. However, end-users outside China still appear either unwilling or unable to amass previous levels of inventories, which in the past has smoothed out seasonal demand flows. Last year both the metallurgical and non-metallurgical sectors sought to closely match purchases of molybdenum both in time and volume with their actual orders for molybdenum-bearing products. Molybdenum consumption patterns therefore may be relatively volatile over the medium term. Longer term, the intensity of molybdenum use will continue to edge higher. Projects located in hostile environments require materials that optimize corrosion and abrasion resistance in addition to other value-added metallurgical characteristics. Molybdenum-bearing alloys provide these enhancements.

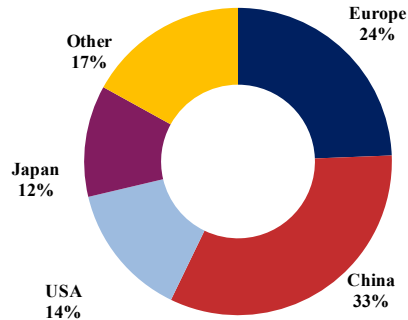
Demand for molybdenum is heavily influenced by steel production, as the steel industry accounted for nearly 70% of total demand in 2009. Stainless steels accounted for the largest share of total demand, at 26%. Another 16% of total demand is attributed to other metallur-

Molybdenum Demand

Molybdenum End-Uses, 2009e



Molybdenum Consumption by Region, 2009e



Source: CPM Group 'Molybdenum Market Outlook'

gical applications such as molybdenum alloys, high performance alloys, and cast iron. The remaining share is consumed in catalysts, lubricants, pigments, and other chemical applications.

Molybdenum is more resistant to high temperatures, lighter, and harder than most of its potential counterparts on the periodic table. The metal's unique properties continue to be critical in meeting the expanding demands of today's infrastructure projects.

Between 2001 and 2007 molybdenum demand grew at a compounded annual growth rate of 7.0%. This sustained uptick was supported by new molybdenum applications, a strong global economy, the rapid industrialization of emerging economies, and a growing stainless steel industry. Meanwhile, supply expanded at a slower pace than demand, which resulted in higher molybdenum prices. After the 2009 lull, an improving demand environment and fabricator restocking could result in 12.5% molybdenum demand growth this year. However, demand may not recover to pre-crisis levels before 2011.

In addition to the expansionary economic environment, the structural demand drivers remain favorable for molybdenum: These include:

- *Relative energy supply scarcity requiring a build out in energy infrastructure. Molybdenum is used in virtually every step of the exploration, development, and production process.*
- *The ongoing industrialization of emerging markets, which has boosted raw material demand. These countries tend to be dependent on robust fixed asset investments to maintain economic performance.*

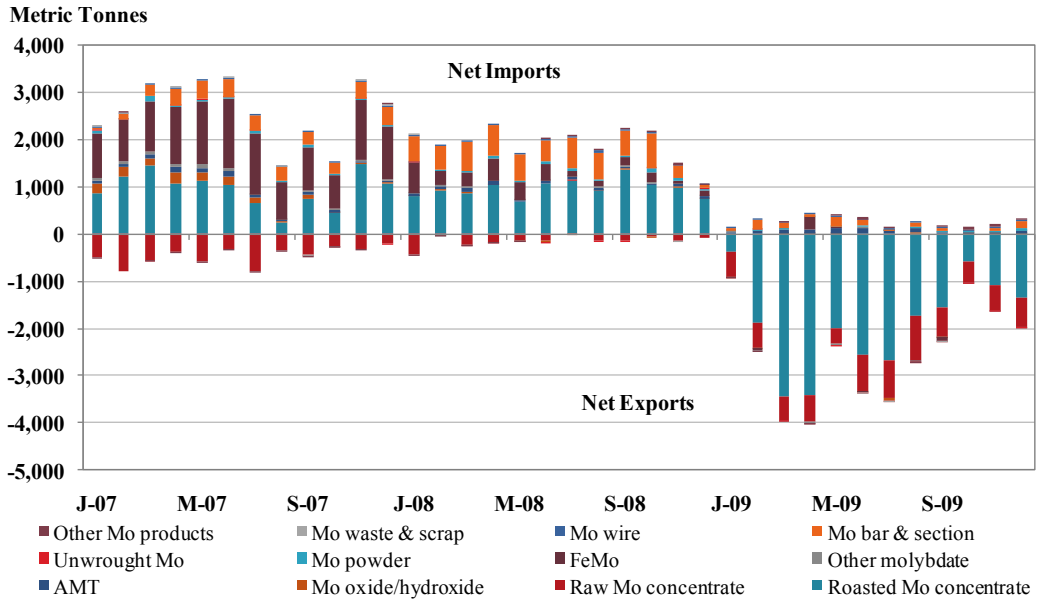
- *Molybdenum's advantages as an alloy in a world where new projects are increasingly being built in corrosive environments such as on the deep-sea and other demanding environments.*

China

Chinese buying has been a key support for the molybdenum market over the past year, absorbing the rest of the world's excess metal. Supply cuts at high-cost Chinese molybdenum mines coupled with robust stimulus spending and changes in monetary policy turned the country into a net importer as of January 2009. Last year China's *net imports* totaled 59.5 million pounds compared to *net exports* of 46.8 million pounds during 2008. These import levels represent over 20% global production in 2009 excluding Chinese supply. Last year Chinese demand for overseas metal pushed molybdenum prices to \$18.00 in August from their low of \$7.70 in April. However, slower inventory builds throughout the supply chain contributed to softer prices in the fourth quarter of 2009. The reality of overstocking coupled with restarted domestic production will likely result in lower Chinese import levels and possibly some re-exporting. This year the price differential between China and the United States is widening, with U.S. molybdenum prices earning a premium over Chinese prices (VAT-adjusted).

Apparent demand for molybdenum surged in 2009 as inventories were built throughout the supply chain and state-sponsored stocking was encouraged. Real demand, however, was significantly less than apparent demand figures would suggest. Inventories of molybdenum-bearing steels also have risen sharply. China also shifted from being a net importer of some finished steels in early in 2009. While Chinese exports of finished steel have picked up, steel inventories are high. These supplies could be re-exported over the coming months, which could effectively exert downward pressure on prices.

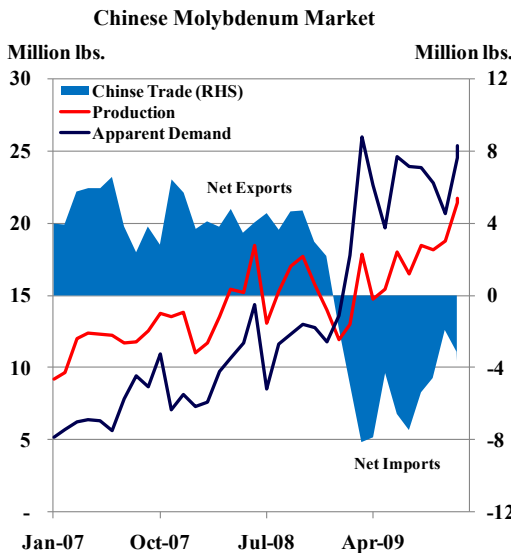
Major Shifts in Chinese Molybdenum Trade



CPM Group

Note: data through December 2009; does not account for inventory changes Source: CPM Group, Customs General

China Puzzle: Stock Overhang or Robust Demand?



CPM Group



Note: Mo data through Dec. 2009 Steel data through Jan. 2010; does not account for inventory changes Source: CPM Group, Antaika, National Statistics, CISA, Customs General

Steel Industry

The steel industry is at an inflection point. However, in major OECD economies, private sector capital expenditures could remain subdued over the coming quarters and fiscal stimulus measures are expected to be distributed by the end of this year. These government-backed projects will continue to flow through the market this year, which will be critical in keeping the steel sector on the path toward recovery. Robust steel demand in emerging markets is expected to be the main growth driver for molybdenum demand. While seasonal strength for fabricated products like crude and stainless steel differs regionally, on a global basis the second quarter typically displays the greatest growth in output of these steels. Output in Europe also exhibits strength over the first quarter. This year restocking by steel mills is forecast to be one of the key drivers for molybdenum demand.

CPM Group is forecasting that the steel industry will return to pre-recession levels in 2011, less than 3 years after the United States fell into the most severe and protracted global downturn since World War II. The steel sector remains in a structural growth phase driven by the industrialization and urbanization of emerging markets, much like the post-war reconstruction phase and the revitalization of the Japanese economy. Emerging markets will continue to demand large quantities of steel as they proceed with their respective industrialization and urbanization processes. The shift toward value-added specialty steel production should continue as well, particularly in China -- the source of roughly 33% of the world's molybdenum fabrication demand. The former Soviet Union also has been increasing its intensity of use.

Cyclical downturns can have deep impacts on steel demand. The steel industry took seven years to recover after the 1929 recession. A similar length recovery was seen following the 1979 and 1991 recessions. While these historic examples suggest looming near term road blocks to a molybdenum price recovery, the unprecedented levels of fiscal and monetary stimulus has helped mitigate the contractions in key steel producing regions. However, if the robust economic expansion in China begins to stall, the global steel market could slip into an L-shaped recovery.

Western world steel producers continued to buy molybdenum on the spot market during 2009, calibrating supplies to market conditions and demand fundamentals. This buying pattern is likely to continue this year. Improved market sentiment stemming from the cyclical upturn combined with seasonal demand in the second and third quarter is forecast to lead to the first round of producer restocking and stronger prices.

Stainless Steel

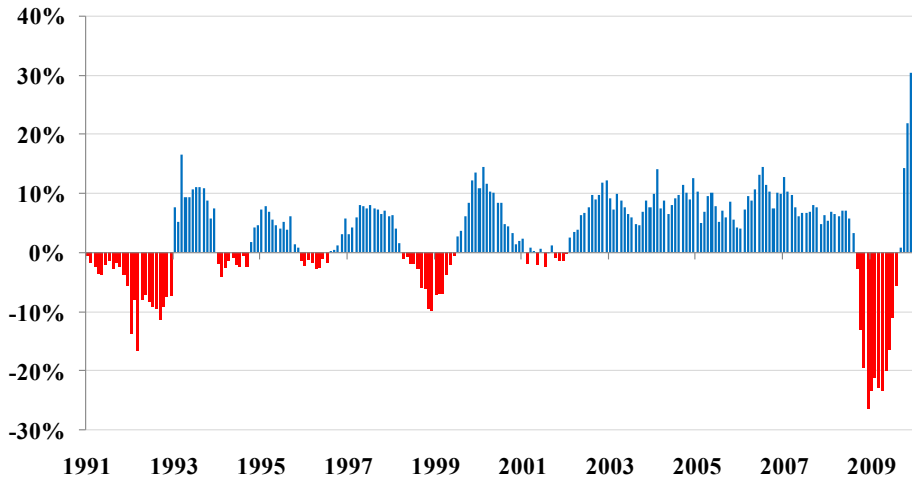
Stainless steel, the largest end-use segment, accounted for roughly 26% of global molybdenum demand in 2009. In stainless steels, molybdenum is employed because of its superior resistance to high chloride levels. In coastal and de-icing salt environments, molybdenum is typically added to iron, carbon, chromium, and/or nickel. Molybdenum also can be combined with other alloys, including niobium, tungsten, and vanadium. Molybdenum-bearing stainless steels are resistant to corrosion and heat, and provide a strength-to-weight advantage. These properties make it indispensable for a range of industries including construction, transportation, oil and gas, and heavy machinery.

Steel Production Stages Strong Recovery

Monthly World Steel Production

Jan. 1991 through Jan. 2010

Year-on-Year Change

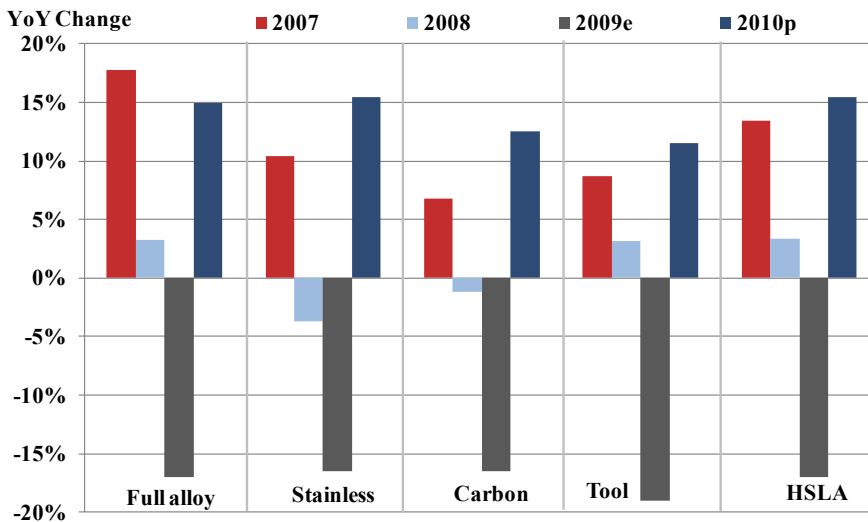


Source: World Steel

Molybdenum Demand Poised For Recovery

Mo Demand Forecast

by Steel Category

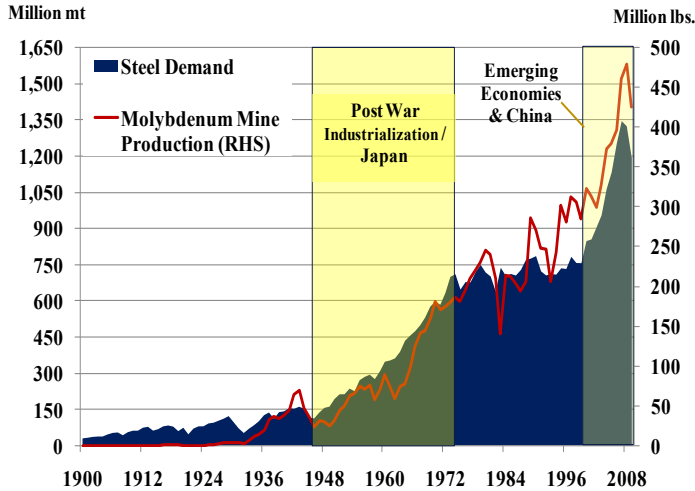


Source: CPM Group 'Molybdenum Market Outlook'

History Paints a Bleaker Picture for Steel Demand

Global Steel Demand and Molybdenum Production

Yearly, through 2009p



Bearish View

Period	% Decline in Steel Demand	# of yrs to regain pre-trough demand
1929 - 1937	-58%	7
1979 - 1988	-15%	9
1991 - 2000	-10%	10



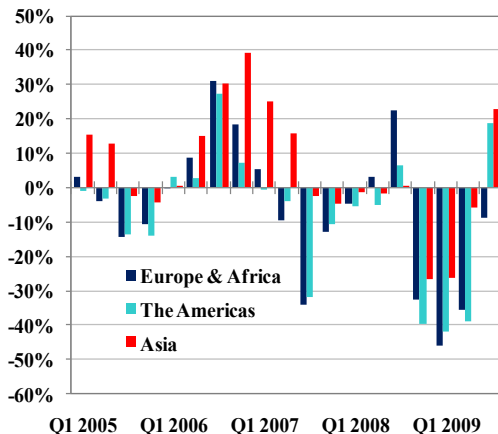
Source: CPM Group, USGS, RMD, MEG, World Steel, Industry sources

Steel Stocking Trends

Changes in Regional Stainless Steel Production

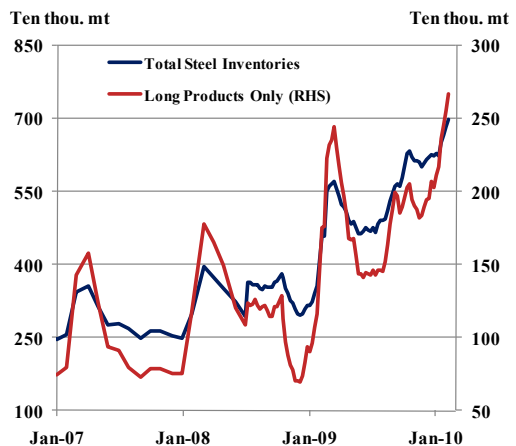
Quarterly, data through 3Q 2009

Year-on-Year Change



Steel Inventories Held by Traders in China

Weekly, data through 5 February 2010



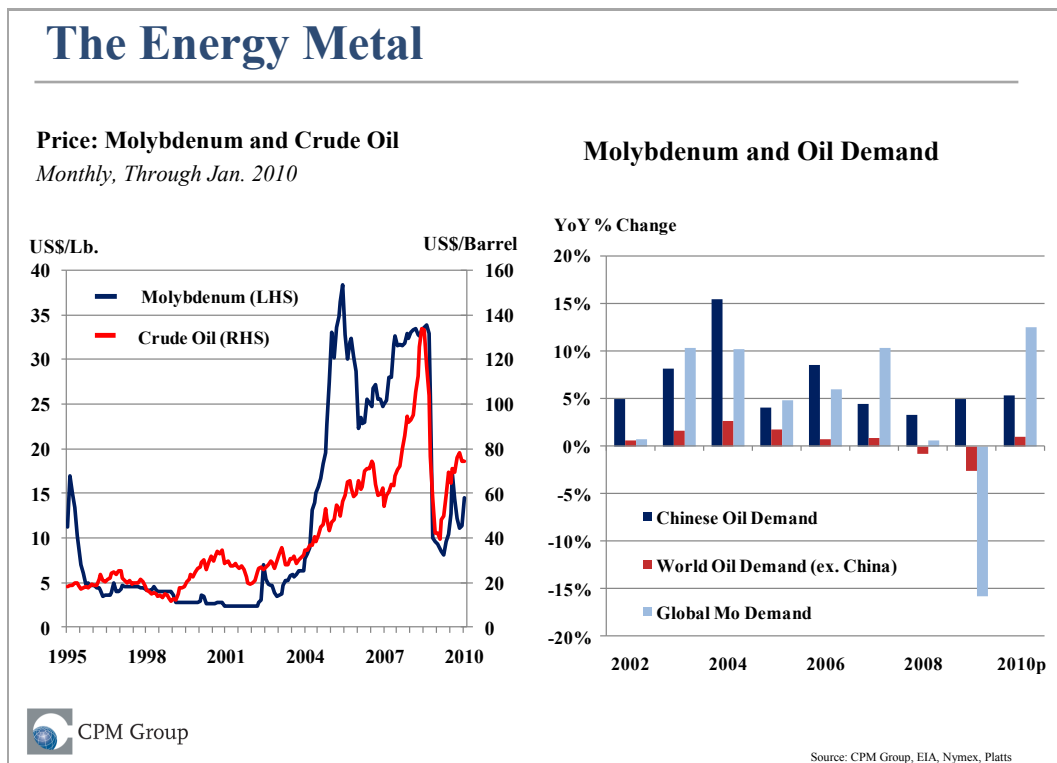
Source: ISSF, Antaike

The stainless steel sector is due for a robust bounce back after coping with a relatively long period of destocking, which began in the second quarter of 2007. In this recent economic slowdown, steel producers slashed production in response to the swift change in demand, resulting in less accumulated inventories. Inventory levels now appear strained and orders for raw materials are trending higher as a result. Going forward, however, the stainless steel industry is slated to slow its capacity expansions after the last few years of large capital expenditures.

Energy Sector

Earning its status as the energy metal, molybdenum demand is closely related to both energy production and consumption. Molybdenum is used in offshore drilling platforms, in pipelines, and in power plant construction in addition to refinery catalysts. The implementation of stricter sulfur content regulations coupled with greater production levels of higher sulfur crude is supportive of increased molybdenum demand. The build out of production, distribution, transmission, and generation infrastructure is supportive of strong molybdenum demand fundamentals.

The Energy Information Administration projects that global crude oil demand could increase by 1.4% year-on-year in 2010 and by 1.8% in 2011. By 2011, global oil demand could amount to 86.86 million barrels per day, nearly 725,000 barrels above the 2007 level. Oil has traded in the \$75 - \$80 recently after falling to \$35 at the end of 2008. Over the short term, high inventory levels and a slow demand recovery in the OECD may be enough to cap upward price moves. OPEC is expected to produce into the price rally, which could limit price surges. However, the prospects for non-OECD oil demand are bullish. Prices are expected to rise, with most of the increase after the second half of 2010 as demand growth resumes. Oil prices still seem likely to trend higher over the next five to 10 years as demand growth is matched with higher cost production.



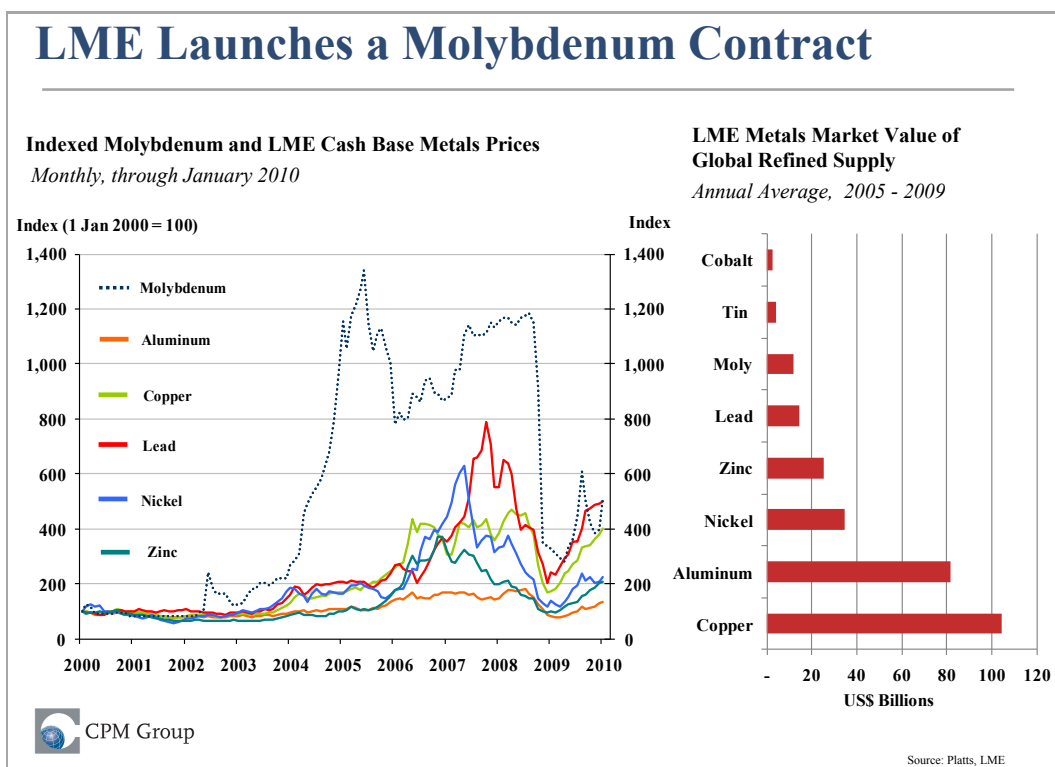
LME Molybdenum Contract Launch

The London Metal Exchange launched contracts for molybdenum on 22 February. While the LME contracts ultimately may become the key benchmarks for prices, widespread acceptance of the LME price is unlikely to occur immediately. Similar to other base metal contract launches, a supply shock or other unforeseen cathartic events may be needed for market participants to find the LME a useful instrument for dealing with unusual market conditions. Aluminum contracts, which have the highest trading volume by contract of any LME exchange-traded metal, gained traction only after the fall of the Soviet Union prompted aluminum dealing banks to turn to the LME. The LME contract provided dealers with the ability to buy excess inventory and hedge their resulting exposure. A similar shift occurred in nickel after a supply disruption. As the chart below illustrates, the market value for molybdenum's physical supplies — slightly more than \$11.5 billion — is larger than tin and cobalt but represents just a fraction of total copper, aluminum, and nickel supplies.

The new contracts bring various benefits and risks to the industry. An exchange-traded contract will facilitate price transparency in a market presently dependent on dealer-to-consumer published prices. If trading volumes reach sufficient levels, producers and consumers will have access to a liquid forward curve to better manage molybdenum price risks. For example, by-product producers may seize opportunities through a variety of hedging strategies while consumers will be able to better manage their input costs.

One of the biggest concerns of the metals industry thus far has been that investors will contribute to volatile price swings as thin trading volumes can wreak havoc on these small markets. Market commentary has focused on the large non-commercial positions in tin.

Theoretical arguments about whether the presence of exchange-traded contracts contribute



to price volatility or diminish it have raged for decades. Statistically, there is no clear winner in this debate: Price volatility of non-exchange traded commodities has been in line with that of commodities traded on exchanges. There is no definitive answer as to whether having a commodity trade on an exchange increases or decreases that commodity's price volatility.

If prices deviate too far from underlying supply and demand dynamics, some substitution could be triggered. This was the case when nickel prices spiked to \$50,000 in 2007 and the stainless steel industry sought lower nickel steel grades. Ideally, consumers want their raw material prices to reflect real demand, not investment demand, even if they can hedge these input costs. The contract launch also has spurred debate over quality control and costs. For molybdenum, inventories will be stored in drums rather than bags, which will help mitigate environmental factors such as a moisture contaminating the molybdenum oxide. However, drums are a more costly storage option than bags.

Market Balance

Molybdenum demand is likely to rebound much more quickly than supply from new mine production can be brought on stream. CPM Group projects that the molybdenum market surplus may be slashed by more than two-thirds this year before moving back into a deficit in 2011. With the lack of project financing, there are few projects that fall under CPM Group's probable and committed category for the next three years.

Inventory Analysis

Until the launch of the LME molybdenum contract, inventory data was not readily available. After the three-month soft launch of the LME's minor metals contracts, deliveries and withdrawals from LME registered warehouses will be reported on a daily basis.

Since molybdenum is considered a strategic metal, physical holdings of the metal are not reported by most governments. Molybdenum oxide and ferromolybdenum from previous years of mining surplus are estimated to be held at government stockpiles, roasters, warehouses, fabricators, investors, and in the working inventories at mining companies. Most of these entities are not required to disclose their holdings.

As mentioned previously, there has been significant stockpiling in China throughout the supply chain. Based on stockpiling seen in other base metals markets, a significant portion of these supplies may be categorized as strategic stocks, but the remainder of these supplies could be slowly brought back on to the market or consumed. These non-sticky inventories are revealed in CPM Group's 2009 market surplus. This year the market surplus is expected to increase inventories, measured in weeks of consumption, by 1.3 weeks.

Outlook

Under these supply and demand conditions, real prices declined to average \$11.12 in 2009 as the sharp correction in prices in the first half of the year weighed heavily on the annual average price. Seasonal restocking by stainless fabricators in Europe and buying by other steel mills ahead of the LME contract pulled prices above \$17 in the middle of February. With these gains already factored into the market, prices may appreciate moderately in the remainder of 2010. Real prices in 2010 may average \$17.50, up 57.4% from 2009. As fabricators continue to restock, the growth in global molybdenum demand could rise to a 15-year high of 12.5%, while mine supply may increase 6.2% in 2010.

The molybdenum market is projected to be in a narrow deficit in 2011. Fairly low stock levels in the market, following six years of recent supply deficits (excluding 2009), and the potential for increased investor interest on the LME should help underpin molybdenum prices at higher levels.

*CPM Group's complete **Molybdenum Market Study** is available for purchase. A detailed table of contents is available at www.cpmgroup.com. For additional information, e-mail moly@cpmgroup.com or contact Adam Crown, Executive Vice President of CPM Group at (212) 785-8324.*



CPM Group

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Asset Management and Investment Banking*

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Consulting

Advisory services on a range of issues related to commodities markets.

Financial and physical management of commodities exposure.

Business development and strategic planning.

Specific topics related to supply or demand.

Investment Banking

Financial advisory services for emerging commodities producing companies.

Debt financing advisory services.

Matching investments to potential institutional and individual investors.

Analysis appraising investments.

Asset Management

Analytical and advisory services related to commodities investments.

Management and execution of specific investments.

Managed accounts.



CPM GROUP

30 Broad Street
37th Floor
New York, NY 10017

info@cpmgroup.com
www.cpmgroup.com