

Today's Notes by Chris Berry:

WEATHERING THE STORM IN JUNIOR RESOURCE SHARES – AN UPDATE ON AMERICAN MANGANESE

Last month, we published a research report on American Manganese (AMY:TSX-V,AMYZF:OTCBB) (found [here](#)) which made the case for the company becoming the only producer of electrolytic manganese (EMM) outside of China. China, you may remember, controls 98% of the global market for this pure form of manganese metal.¹

In the report we noted several catalysts to a higher share price, one being the production of a prefeasibility study from Wardrop Engineering and along with that an updated NI 43-101 resource estimate. Earlier this month, the company announced the update to the resource estimate and the results confirmed what we believed from our original site visit to Artillery Peak: this deposit is going to continue to increase in size.

Here is the **original** NI 43-101 estimate:

	Tonnes	Grade (% Mn)	Pounds of Mn (billions)
Indicated	92,823,925	3.27%	6.686
Inferred	107,211,073	3.76%	8.881
TOTAL	200,034,998	3.53%	15.567

Source: Company Documents, .9% Mn cut-off grade

Here is the **updated** NI 43-101 estimate:

	Tonnes	Grade (% Mn)	Pounds of Mn (billions)
Indicated	226,463,754	2.99%	14.916
Inferred	56,421,027	2.84%	3.538
TOTAL	282,884,781	2.96%	18.454

Source: Company Documents, .9% Mn cut-off grade, weighted average grade our calculation

To avoid any confusion, here are the pertinent increases:

INCREASE in the Indicated POUNDS of Mn Metal: **123%**

INCREASE in the Indicated Tonnage: **143%**

INCREASE in Total Tonnage: **41%**

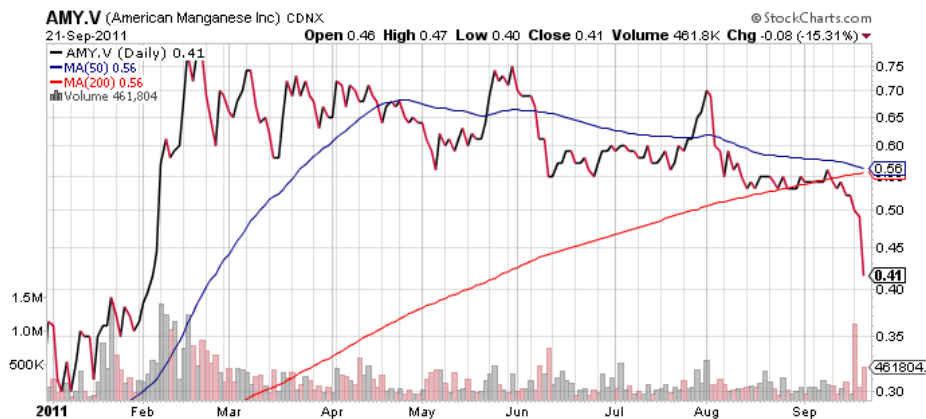
INCREASE in Total Contained Pounds of Manganese Metal: **18.5%**

These numbers have increased due to the completion of AMY's 2011 drill program which included 84 reverse circulation drill holes totaling 10,607 meters (34,800 feet) and was primarily in-fill drilling

¹ The Manganese Metal Company, based in South Africa, accounts for the remaining approximately 2% of global production of EMM.

with a minimal amount of step out drilling. The in-fill drilling accounts for the significant increase in the Indicated resource. Though the grade of the deposit has fallen somewhat, we are pleased with the fact that tonnage has increased substantially and this does not affect the potential competitive advantage for the company – that being its ability to be the lowest cost producer of EMM in the world. In the report we wrote, we estimated a cash cost of \$0.48/lb Mn. AMY has stated an “all-in” cost of \$0.63 and estimates of costs in China are \$0.98/lb before a 20% export duty. As China continues to clean up her environment, potentially restricting production of EMM amongst other metals, we believe this bodes well for those companies that can produce EMM and supply it to global markets. With the price of EMM on world markets approximately between \$1.63 (Rotterdam) and \$1.80/lb (North America), the favorable economics at the Artillery Peak deposit are clear.

The next major catalyst is an announcement from AMY on the success of producing EMM from a pilot plant. Kemetco has been charged with this task and is also researching the production process for lithium-manganese battery powder – another potential avenue of demand for the company. The process for producing EMM has been proven on a bench scale and the pilot plant (commissioned in late August) has been processing material on a continuous basis for several days at a time according to the company. We anticipate hearing more detailed results in the near future.



The chart above isn't pretty, to be sure, but we think it speaks more to uncertainty in global economic affairs and the “risk off” trade rather than anything specific to the company. AMY is continuing to position itself as the only producer of EMM outside of China and South Africa by 2014, and to be the lowest cost producer of EMM at that.

Finally, we want to make one important point – manganese is critical for the manufacture of steel. If you're a believer in global steel growth going forward, manganese would appear to be a favorable place to be. We've written before that to produce one tonne of steel, approximately 10 kg of manganese is needed. In 2010, 1.34 billion tonnes of steel was manufactured globally, and so even if this number increases at global GDP growth rates going forward (we estimate 4%), you can get a sense for the potential demand for manganese and in particular EMM.

According to AMY CEO Larry Reaugh in a recent interview:

"It's not a luxury item; it's a necessity. You can't make steel without manganese. If you want to get into specialty stainless steels, you need the metal. Certainly the aluminum industry is about a third of the entire demand, so it's a necessity. There's no substitute for it."

In Discovery Investing, patience on the part of the investor is Point Ten on the Ten Point Grid. With so much uncertainty in the junior markets these days and the seeming disconnect between junior mining companies and the resources they hope to produce, patience and courage seem in short supply. With AMY's potential competitive advantages and upcoming catalysts, we still believe this patience and courage will be rewarded.

AMY has 130,295,720 shares outstanding fully diluted and has \$7,000,000 in cash in the Treasury.

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