

Today's Notes by Chris Berry:

Despite the whiffs of economic uncertainty and threat of deflationary forces which are occupying the airwaves, there have been several very significant developments associated with two of the Discovery companies we cover: **American Manganese** and **Antioquia Gold**. For the sake of brevity, we've chosen to break the discussion of each down into a new format which should make the analysis easier to digest.

[American Manganese \(AMY:TSXV, AMYZF: OTCBB\)](#)

WHAT HAPPENED:

Yesterday, AMY announced that the pilot plant testing it began on August 18th has been a success. The pilot plant had been constructed to demonstrate the feasibility of extraction and separation of manganese from its 100% owned Artillery Peak manganese deposit in Arizona. This process had been achieved previously on a bench scale and the company's next hurdle was to prove out this process on a larger scale. When we spoke with CEO Larry Reaugh yesterday, he characterized this announcement as "a major milestone." We wholeheartedly agree, and apparently so did the markets pushing the stock up 17% on volume of 380,000 shares.

WHAT IT MEANS:

We want to be clear that this is a significant step in the evolution of AMY from an advanced exploration story to an eventual producer of electrolytic manganese (EMM). Successful pilot plant testing was the next step in AMY's plan to bring Artillery Peak back into production by mid-2014 producing 50,000 tons of EMM per year. A great 360 degree view of the scale of the plant can be seen [here](#).

Initially, the plant was operated "on and off" to test for performance in a number of different operating scenarios and was ramped up to a continuous operation for a 72 hour period. The keys during the continuous operation were the testing of the performance of the leach and solid/liquid separation. These tests indicate recovery rates and this was the first of several positive surprises for the company. A 92.7% recovery rate was achieved which is substantially higher than that of AMY's Chinese competitors who are believed to maintain a recovery rate somewhere closer to 70%.

An additional success here pertains to the amount of material the pilot plant was able to process per hour. Initially, the company expected to be able to process between 3 to 5 kg of the resource per hour. The average processing rate realized during the operation of the pilot plant was 20.8 kg per hour – roughly four times larger than expected.

These successes have substantially "de-risked" some of the technical challenges on the process flow sheet.

WHAT'S NEXT:

AMY will now begin nano-filtration testing to increase recovery rates and also continue testing to gauge to total amount of water that can be reclaimed in the EMM production process. Wardrop Engineering/Tetra Tech now has enough data to complete a NI 43-101 prefeasibility study in Q4 2011 and work at the site and at the pilot plant is continuing. What is key here is the successful completion of the leaching and solid/liquid separation. The remaining steps to creating EMM (purifying a pregnant leach solution, producing manganese carbonate, and converting it to sulphate) are processes that are already understood, so when you combine the successful pilot plant test with these final steps just mentioned, we start to get a clearer view of how AMY will produce EMM. The additional testing will continue and be completed in the next six weeks according to the company.

In a research report we recently published on the company (found [here](#)), we assigned a NAV per share on Artillery Peak of \$2.73. This may seem high, especially in light of the hit the company's shares have taken recently. However, the company has proven a method for producing EMM at a far cheaper overall cost than any of its competitors. AMY can still become the only producer of EMM outside of China and South Africa decreasing North American reliance on one of the most critical of metals. News like this is why we do Discovery Investing. We stand by our NAV estimate and await additional news from the company in the



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