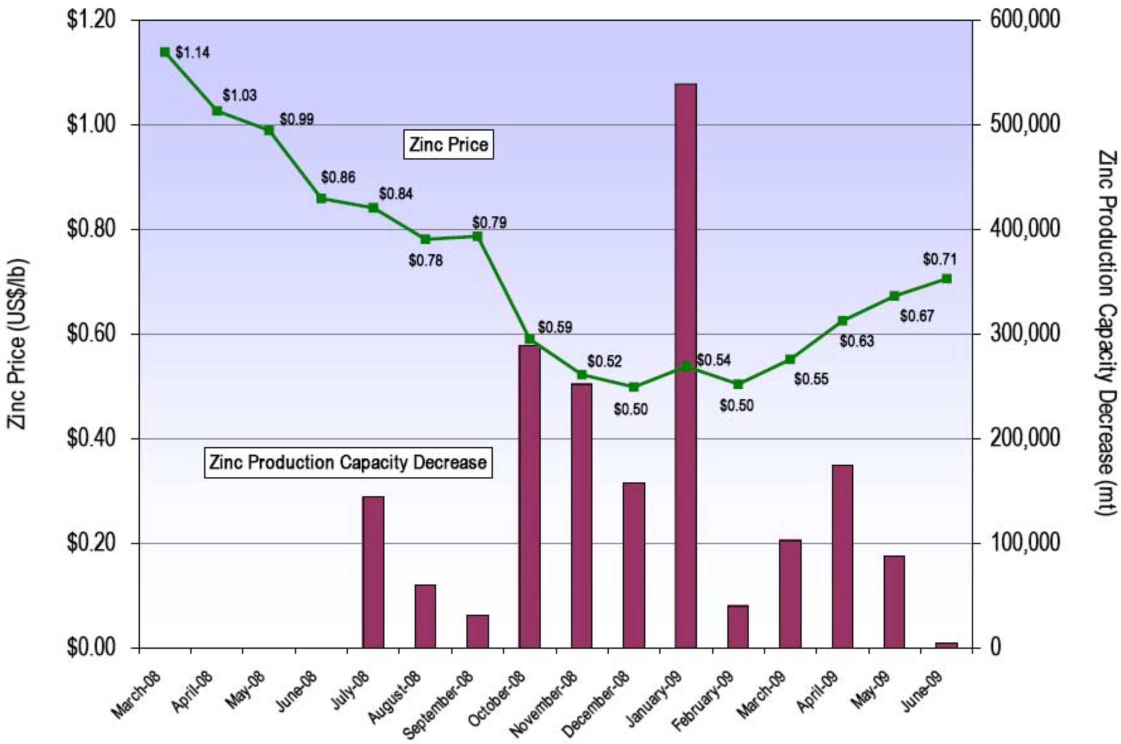
Metals Economics Group Strategic Report: World Zinc Supply Pipeline

Zinc production cutbacks reduce potential 2009 production by 1.4 million mt

Halifax, Nova Scotia, September 15, 2009 – The impact of the global financial crisis on zinc prices and the zinc pipeline will be felt long after the economy recovers. According to Metals Economics Group's (MEG) recent *Strategic Report,* as zinc prices fell to and remained at multiyear lows, many preproduction- and expansion-stage projects were halted, and existing mines experienced production reductions or halts. After three months of declining prices beginning in April 2008, producers began announcing development delays and reduced production.

Zinc Production Decreases by Month, 2008-09



NOTE: The total capacity taken offline (or that will not be coming online) is ascribed to the month it was announced.

Small amounts of zinc were initially removed from the pipeline, as marginal producers announced cutbacks. However, the amount removed increased markedly in October after zinc prices dropped by 25%, with no sign of a near-term recovery. A spike occurred in January 2009, attributable to companies reporting production reductions in their quarterly and year-end results. The amount of capacity removed in February dropped significantly as the price stabilized. Over the last several months in 2009, further capacity reductions were announced as companies hoping for a dramatic price increase (mirroring the decline) succumbed to the reality of a slow recovery in demand and price, which will cause many of the suspended projects to remain on hold in the near term. During the 12-month period covered, a reported 42 project cutbacks removed almost 1.4 million mt of actual and potential zinc production capacity from 2009's projected production.

There is, however, reason to be optimistic in the long term, as demand will eventually recover, possibly leading to a supply deficit as a result of the massive worldwide capacity cutbacks. Twenty-four large primary zinc deposits are in reserves development or feasibility stage, each with more than 1 million mt of zinc in total reserves and resources. These deposits contain a total of 98.3 million mt of zinc; however, low zinc demand and prices may prevent these projects from proceeding on the scale and in the time frame their owners originally intended.

MEG's report includes a review of the 19 most advanced developing zinc mines, mine redevelopments, or expansions currently in the pipeline and expected to be commissioned in 2009-11. If all reach full capacity, they will add almost 1.1 million mt/year to world zinc production over the next three years. Not surprisingly in a time of depressed demand, new mine development accounts for only 30% of the new capacity, with the remainder being expansions at established mines.

MEG's *Strategic Report* provides informed, insightful analysis for mining industry planners, analysts, executives, and exploration managers. Published since 1982, the *Strategic Report* draws on MEG's wealth of knowledge and insight in a bimonthly compilation of timely, informative, and analytical articles on critical supply-side issues facing the global mining industry. In addition to original research, articles are drawn from MEG's flagship *MineSearch* database, *Corporate Exploration Strategies* and *Reserves Replacement* studies, and *Acquisitions* and *Exploration Activity* services.

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Metals Economics Group (MEG) provides information and analysis on the global mining industry focused on addressing both strategic and tactical business needs. Clients benefit from a painstaking commitment to accuracy, many years of experience, excellent relationships with other industry experts, an unbiased approach to reporting and analyzing the latest trends and issues, and a responsive, personal approach to customer care. Through analysis, information services, and consulting, MEG continuously builds on its foundation as the primary source of intelligence on global minerals exploration, development, and production; strategic planning issues; and acquisitions activity.

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Media Contact:
Nadine Tanner, Director, Marketing
Metals Economics Group
Suite 300, 1718 Argyle St., Halifax
Nova Scotia, Canada B3J 3N6

T: 902.429.2880
F: 902.429.6593
ntanner@metalseconomics.com