

## ROCK TALK

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### SUMMARY

In this edition, we introduce a new company to our radar screen.

### RADAR SCREEN ADDITION

- **CANCANA RESOURCES CORP. (TSXV-CNY); NOT RATED**

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**THIS ISSUE**

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## COMMODITY PRICE PERFORMANCE

Commodity	Unit	1 Week	1 Month	3 Month	6 Month	YTD
Gold <sup>1</sup>	(US\$/oz)	-1.3%	-0.7%	-4.3%	3.3%	5.6%
Silver <sup>1</sup>	(US\$/oz)	-2.2%	2.1%	-4.2%	11.8%	11.7%
Copper <sup>2</sup>	(US\$/lb)	-0.4%	2.4%	7.2%	11.1%	8.4%
Zinc <sup>2</sup>	(US\$/lb)	1.5%	9.7%	14.2%	21.5%	19.8%
Nickel <sup>2</sup>	(US\$/lb)	-1.8%	4.4%	14.4%	18.7%	-1.8%
Iron Ore <sup>3</sup>	(US\$/t)	0.6%	1.6%	27.3%	27.3%	9.9%
Moly Oxide <sup>2</sup>	(US\$/lb)	0.0%	-4.6%	3.8%	-0.8%	-14.5%
Colbalt - 99.8% <sup>2</sup>	(US\$/lb)	-1.5%	-1.5%	8.0%	-9.4%	-14.8%
Uranium <sup>4</sup>	(US\$/lb)	0.0%	2.3%	7.4%	-11.6%	-16.3%
USD:CAD		0.7%	1.8%	0.0%	1.0%	-1.9%

1. Spot Price

2. LME 3-Month Price; Previous Day Close

3. Iron Ore Fines (63.5% Fe) CIF China; 1-Week Delay

4. Non-ferrous Metals U-308 Ore Nuexco Index

## RADAR SCREEN

Company	Ticker	Close Price	Annual High	Annual Low	Shares O/S (MM)	Market Cap (MM)	Cash (CAD MM)	Debt (CAD MM)	EV (CAD MM)
<b>RADAR SCREEN</b>									
Afri-Can Marine Minerals Corp.	TSXV:AFA	0.07	0.24	0.05	83	5	0	1	6
Athabasca Minerals Inc.	TSXV:ABM	1.35	2.44	0.47	28	38	3	6	41
Bio Nitrogen Corporation	OTCPK:BION	0.16	1.72	0.02	201	31	-	-	31
Cancana Resources Corp.	TSXV:CNY	0.36	0.53	0.13	32	11	0	-	11
Carpathian Gold Inc.	TSX:CPN	0.33	0.60	0.24	555	181	28	-	153
Centamin Plc.	TSX:CEE	0.93	1.72	0.42	1,101	1,024	123	-	902
Compass Gold Corporation	TSXV:CVB	0.04	0.13	0.03	139	5	2	1	4
Energizer Resources Inc.	TSX:EGZ	0.26	0.48	0.22	163	42	2	-	40
Excellon Resources Inc.	TSX:EXN	0.50	0.71	0.33	275	136	11	-	126
Graphite One Resources Inc.	TSXV:GPH	0.21	0.41	0.10	86	18	1	-	17
Highland Copper Company Inc.	TSXV:HI	0.50	0.73	0.33	52	26	16	-	10
Labrador Iron Mines Holdings Ltd.	TSX:LIM	0.84	6.14	0.56	123	103	1	4	106
Mega Precious Metals Inc.	TSXV:MGP	0.22	0.75	0.19	116	25	8	-	17
Mercator Minerals Ltd.	TSX:ML	0.46	1.77	0.37	315	145	4	133	274
New Millennium Iron Corp.	TSX:NML	1.25	3.23	0.97	179	224	78	-	146
Sandspring Resources Ltd.	TSXV:SSP	0.39	1.47	0.35	132	52	16	-	36
Scorpio Gold Corp.	TSXV:SGN	0.55	1.09	0.40	125	69	2	-	66
Silvercrest Mines Inc.	TSXV:SVL	2.45	3.17	1.55	106	259	36	-	224
Tower Resources Ltd.	TSXV:TWR	0.26	0.50	0.20	33	9	3	0	6
TriAusMin Ltd.	TSX:TOR	0.07	0.14	0.06	251	16	1	-	16
True North Gems Inc.	TSXV:TGX	0.06	0.10	0.04	33	2	3	0	(1)

Source: Jennings Capital Inc., Thomson ONE, Capital IQ

**CANCANA RESOURCES CORP. (TSXV-CNY); NOT RATED**

Cancana Resources Corp. (“Cancana” or the “Company”) is a Canadian-based junior mining exploration and development company, whose flagship asset is a highly prospective manganese-bearing property consisting of ~45,000 contiguous hectares in Rondonia, Brazil. The latest NI 43-101 report showed an average grade of 54% manganese, “super-high grade” by industry standards. Cancana recently announced it had entered into an exclusive MOU to acquire a company adjacent to its properties. The acquisition is an already producing, operating entity with infrastructure and manganese claims of a further 75,000 Hectares. With the acquisition, Cancana would have in excess of 120,000 Hectares.

The Company plans to commence a trial mining program this year with initial targeted production between 18,000 and 20,000 tonnes. Based on current manganese prices, this production could potentially generate revenue of over C\$5 million in 2013. This project (named the Valdirao Project) is fully-funded and the final trial mining permit is expected within the next two months. Production is expected to commence mid-2013.

Manganese is the fourth most used metal in the world and the fourth most traded. It is non-substitutable in the production of steel, and approximately 90% of manganese’s demand is for the steel industry. Global manganese production in 2012 is estimated to be approximately 16.5 million tonnes and is expected to grow to 20 million tonnes by 2015.

**RECENT EVENTS:**

- **February 8, 2013:** Cancana announced that it signed an exclusive MOU to purchase a 100% interest in 15 mineral claims with an aggregate ~75,000 hectares in Rondonia, Brazil, which hosts a producing manganese mining operation.
- **January 31, 2013:** The Company announced the closing of a ~C\$1.1 million non-brokered, private placement financing consisting of 5,480,900 units at a price of C\$0.20 per unit. Each unit consists of one common share and one warrant (warrants have an exercise price of C\$0.25 and expire in January 2015). This was the second tranche closing, the first tranche closed November 2012, with ~\$930k, for an aggregate total of ~\$2.03m.
- **January 15, 2012:** Cancana announced the results of its updated NI 43-101 technical report on its 100%-owned claim known as 241. Inferred resource is estimated to total 35,000 tonnes of mineralization with an average manganese grade of 54%.

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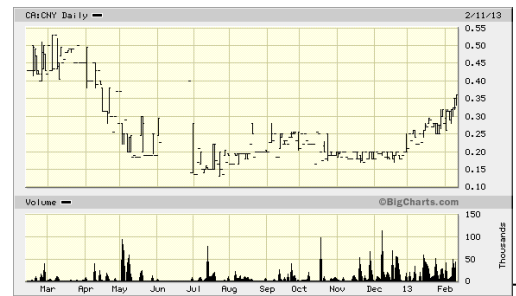
Company Statistics	
52 Week Range	\$0.13 - \$0.53
Basic Shares (MM)	31.8
Fully Diluted Shares (MM)	42.3
Market Cap (MM)	\$11.4
Cash (MM)	\$1.1 E
Total Debt (MM)	\$0.0
Working Capital (MM)	(\$1.0) E
Average 100 Day Volume	26,110

Major Shareholders	
Management & Directors	~45.0%
Sprott Asset Management, LP	~1.0%

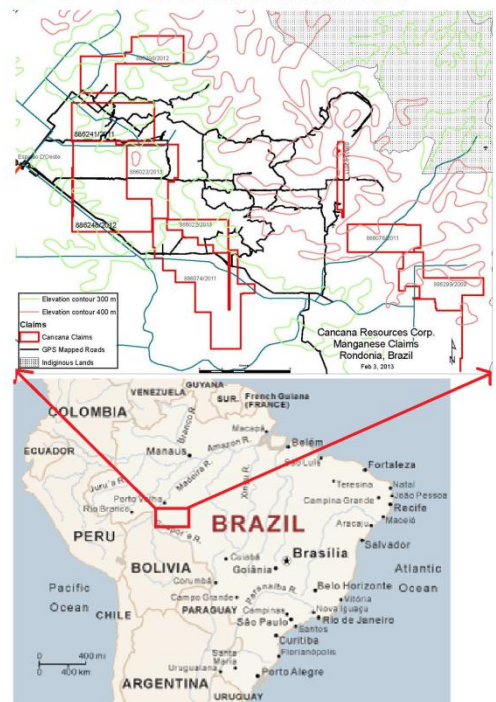
Website & Contact Info	
www.cancanacorp.com	1.403.269.2065

**Management**

Andrew R. Male, President, CEO, & Director  
 Marcio Luiz Bastos Nogueira, Country Manager



**CURRENT MANGANESE PROPERTY CLAIMS**



Source: Company presentation and JCI

## NEAR-TERM MANGANESE PRODUCER: CASH FLOWING IN MID-2013

The Company intends to commence the Valdirao bulk sample / trial mining program in mid-2013, which is expected to produce between 18,000 and 20,000 tonnes in 2013. Based on the current manganese spot price, there is the potential to generate revenue of over ~C\$5 million and yield net income of ~\$1.5 million, or ~C\$0.04 per fully-diluted share. Management estimates initial capex for this phase to be approximately C\$1.5 million (a large portion of this has already been spent).

- **Phase II could generate up to C\$0.19 per FD share:** The Company anticipates that production will be ramped-up to approximately 100,000 tonnes in 2014. Using current manganese spot prices, this represents C\$28 million in revenue and potentially C\$7.6 million, or C\$0.19 per fully diluted share. The Company plans to increase production by extending the Valdirao project onto neighbouring farms, as it follows the manganese trend and establishes alternative locations for production. If the Company is successful in establishing sizable alternative locations, we believe that it will be a more appealing takeout target.
- **Near surface deposit coupled with simple processing should equate to low cost operation:** The deposit is in-situ cobble form manganese located within 2 or 3 metres from surface and the manganese (pyrolusite) is loosely packed in red clay. Therefore, Cancana is able to excavate the material in ~3-metre open pits using heavy equipment. Processing will simply entail screening the material for manganese (essentially remove the black rocks), and then washing the ore with water. After grade and volume analysis are completed, the ore will be sold on a contract basis to the local Brazilian market. (neighbouring company, Rio Madeira, with whom Cancana has the MOU for acquisition, has been selling its ore into the spot market since 2008).
- **Mining and processing costs should decline significantly as production ramps up:** The estimated cost for Phase I of the Valdirao project is expected to be approximately C\$180 to C\$200 per tonne, as contract miners will be employed in order to reduce project risk and capex. However, as the Company moves into Phase II, it plans to begin accumulating equipment with cash flow generated from Phase I and, in time, costs should be reduced significantly.
- **Property is adjacent to two operating manganese mines:** Two separate and adjacent companies, Rio Madeira (private company discussed below) and Eletroligas (private company), are currently producing manganese. Rio Madeira has been operating a processing plant since 2008 and sells

Balance Sheet (FYE: Jan 31 <sup>st</sup> )	
As at Sep 30, 2012	(C\$)
<b>Assets</b>	
Cash and Equivalents	408,320
Amounts Receivable	496,774
Loans receivable	150,000
<b>Current Assets</b>	<b>1,055,094</b>
Exploration and Evaluation Properties	1,041,857
Investment	3,166,548
<b>Total Assets</b>	<b>5,263,499</b>
<b>Liabilities</b>	
Trade Payables & Accrued Liabilities	796,361
Due to Related Parties	578,624
<b>Current Liabilities</b>	<b>1,374,985</b>
Share Capital	38,339,409
Stock Option Reserve	2,851,568
Warrant Reserve	2,952,240
Deficit	(40,254,703)
<b>Total Liabilities and Equity</b>	<b>5,263,499</b>

Most Recent Financing Activity	
Date	Jan 31, 2013
Type	NB, PP
Number of Common Shares (MM)	5.5 MM
Price	\$0.20
Gross Proceeds (MM)	\$1.10

Reserves and Resources			
Aappaluttoq Project	Tonnes	Mn grade	Contained
Inferred Resources	35,000 t	54.0%	18,900 t

## MANGANESE BOULDER EXPOSED DURING 2012 TRENCHING



Source: Company presentation and JCI

its product to domestic steel, ferromanganese and fertilizer companies. Eletroligas' mine has been in production for approximately one year and its production is used internally to produce ferromanganese.

- **World-class grades:** Twelve samples taken from the property in 2012, and tested by Loring Laboratories (Alberta) Ltd. and SGS Lakefield, had an average grade of 53.7% manganese (Mn) and ranged between 46.23% Mn to 60.4% Mn. This is far above the estimated global average of 32% Mn. Higher grade ore has the advantages of lower acid consumption, higher Mn recovery (up to 87%), and lower waste production and handling costs.
- **Excellent infrastructure:** The property is accessible year round by municipal roads. It is situated 30 km from Espigao D'Oeste (population of ~29,000) and is a 45-minute drive from Cacoal (population of ~ 80,000). Water may be sourced from one or more of the several creeks and rivers that flow through the area. Power could be sourced from the national grid (a major sub-station is situated outside Espigao D'Oeste).
- **Exploration upside:** The Company's most recent NI 43-101 report estimates 35,000 tonnes of mineralization with an average grade of 54% Mn. This is based on lands with an aerial extent of only 4.4 hectares versus the Company's existing ~45,000 hectares.

### EXCLUSIVE MOU TO ACQUIRE AN OPERATING MANGANESE MINE AND PROCESSING FACILITY ON AN ADJACENT PROPERTY

Last week, Cancana announced that it had signed an MOU to acquire Rio Madeira Comercio Importacao E Exportacao ("Rio Madeira"), which owns a producing manganese mining operation.

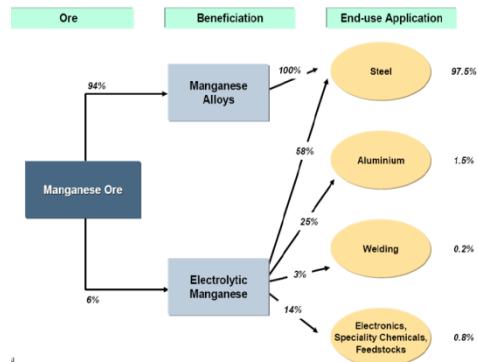
- **A turn-key operation:** Rio Madeira currently produces lump ore of various sizes, with historical production ranging between 3,000 and 6,000 tonnes per month. Rio Madeira owns crushing, vibrating screening, density separation and sorting equipment, as well as dump trucks, excavators, and front-end loaders.
- **Sizable land position:** Rio Madeira also holds title to 15 mineral claims (including three full mining licences) with an aggregate ~75,000 hectares. These claims are adjacent to and mostly contiguous with Cancana's existing claims in Rondonia, Brazil. Rio Madeira also reported grades equivalent to Cancana, which ranged between 46.23% Mn and 60.4% Mn.

### RIO MADEIRA MINE SITE TRENCHING



Source: Technical Report, M.L.B. de Nogueira Mineração Manganese Properties. Rondonia, Brazil

### DEMAND FOR MANGANESE



Source: Manganese Institute, Monitor interviews and Analysis

- **Cancana would be a more attractive acquisition target:** If Cancana were to acquire Rio Madeira, it would have 100% interest in over 120,000 hectares of proven and prospective manganese-bearing lands. We feel that with a land position of this scale, coupled with potentially producing over 150,000 tonnes of manganese annually, Cancana would be a very appealing acquisition target.

**OTHER PROPERTIES: DIAMOND AND GOLD ASSETS TO BE SPUN-OFF INTO NEW ENTITY**

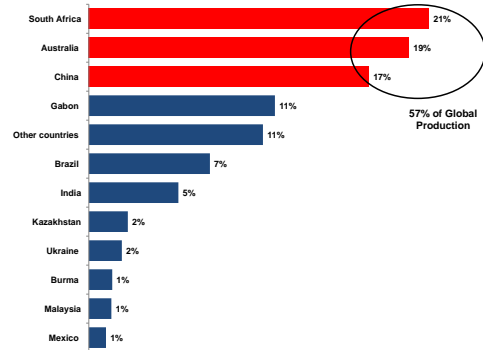
Cancana also has a gold property in British Columbia, known as Dash, and diamond and gold assets in Brazil. Management intends to spin-off these assets into a separate company. When completed, Cancana will be a pure-play manganese mining company.

**THE COMMODITY – MANGANESE**

Manganese is a minor metal, although it ranks fourth in production behind iron, aluminum and copper. Its demand is essentially dependent upon steel production, as approximately 90% of global manganese production is consumed by the steel industry. The strongest demand for manganese is obviously from China, and demand from India is also expected to become more significant as the nation continues to develop. Non-steel consumption of manganese includes de-polarization of dry-cell batteries, as well as an additive of some aluminium and copper alloys.

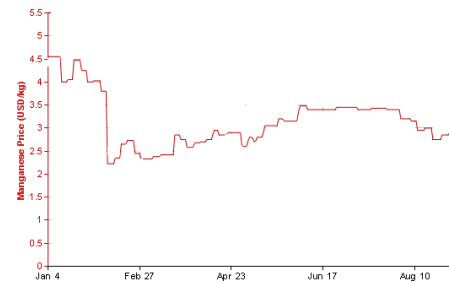
- **Price is supply-driven:** South Africa, Australia and China account for approximately 57% of global production. Although South Africa hosts the world’s largest manganese deposit, logistics constraints severely limit significant increases in production. We discuss China below.
- **China is a net importer of manganese:** China produces approximately one-half of the world’s steel and is, therefore, the largest consumer of manganese. China currently imports approximately one-half of its manganese ore requirement, and its dependence on imports is likely to grow, as the country’s already low average manganese ore grade of ~16% Mn is estimated to decline by between 0.5% and 1.0% annually.
- **There are no substitutes for manganese’s primary use:** It is impossible to produce steel without manganese, as it is used to remove sulphur from liquid steel, which is what causes steel to crack. For each tonne of steel produced, on average, approximately 10 kilograms of manganese alloy is required, which is equivalent to 30 kilograms of manganese ore (based on an estimated global average grade of 32% Mn). Furthermore, there are no commercially viable methods of recycling manganese.

**BREAKDOWN OF GLOBAL MANGANESE PRODUCTION**



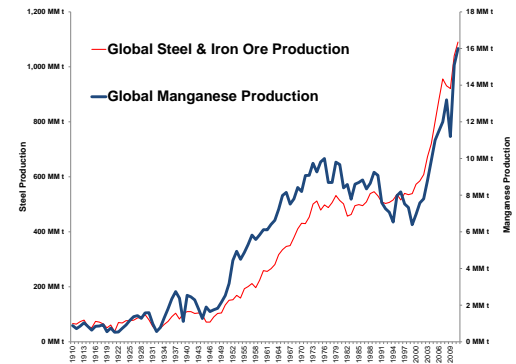
Source: U.S. Geological Survey and Jennings Capital Inc.

**HISTORICAL MANGANESE PRICES**



Source: InvestmentMine and International Trade and modified by Jennings Capital Inc.

**STEEL AND MANGANESE DEMAND**



Source: U.S. Geological Survey and Jennings Capital Inc.

- **Manganese ore is not traded on an exchange:** Ore prices are negotiated between buyers and sellers, based on global benchmarks. Prices are in U.S. dollars and based on dry metric tonne units (dmtu), which is 1% of manganese contained in a tonne of ore (excluding moisture). Prices are determined by multiplying benchmark price per dmtu by the ore's grade. Therefore, higher grade ores fetch higher prices per dmtu relative to lower grade ores.

**POTENTIAL CATALYSTS:**

- **Mid-2013:** Commence the Valdirao bulk sample / trial mining program.
- **Early 2013:** Commence Phase II of the Valdirao mining program with targeted production of 100,000 tonnes per year.
- **2013 / 2014:** Acquire Rio Madeira.

**RISKS:**

- Among the high risks associated with exploration and development companies are lack of operating cash flow, unreceptive capital markets and deleterious social or political developments.



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**BUY:** Stock is expected to provide a total return in excess of 10% over the current trading price over the next 12 months.

**SPECULATIVE BUY:** Stock is expected to provide a total return in excess of 10% over the current trading price over the next 12 months; however, there is material event risk associated with the investment

**HOLD:** Stock is expected to provide a total return of 0% to 10% over the current trading price over the next 12 months.

**SELL:** Stock is expected to provide a negative total return over the next 12 months.

**UNDER REVIEW:** There are new developments on the Company and pending receipt of full information from management, the stock is under review.

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<b>DISTRIBUTION OF RATINGS</b>	
<b>RATING</b>	<b>#</b>
<b>BUY</b>	12
<b>SPECULATIVE BUY</b>	16
<b>HOLD</b>	1
<b>SELL</b>	1
<b>TENDER TO OFFER</b>	0
<b>UNDER REVIEW</b>	0
<b>RESTRICTED</b>	3
<b>Total # of Companies Covered</b>	<b>33</b>
<i>Revised Monthly</i>	

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