

Chromex Mining plc

Fully funded, cash flow positive chrome producer – Initiation of Coverage

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Event

We are initiating coverage of Chromex Mining plc (“Chromex”), an AIM listed junior chrome developer/producer with South African mining and processing assets which is fully funded for its current growth strategy. While production is only currently at 25% capacity we believe Chromex’s low cost and flexible business model, which is still generating healthy margins, offers investors optionality on the chrome price and improvement in the Chinese stainless steel industry.

Company Summary

Chromex (CHX.LN) is a two asset; single commodity company with projects located on the Western and Eastern limbs of the Bushveld Complex in South Africa where in excess of 70% of the worlds chrome resources are located and 40% of production is sourced. Chromex has a strong management team and offers rare “pure play” exposure to chrome.

Production is currently sourced from the Stellite project which the Company secured in May’08, and open cast, contract mining commenced in Jul’08. Current production is only at 25% capacity but still provides favourable early positive cash flows. The construction of a beneficiation plant will enable the Company to capture a greater value add of internal and 3rd party ROM chrome production from May’09. Mecklenburg is the Company’s second asset, being the original flagship project, and is a higher grade, underground deposit. Mecklenburg is currently not being developed given the macro/ chrome environment, and the ongoing conflict between Samancor and the South African Department of Minerals & Energy (“DME”) over the tenor of the property. We expect the dispute to be resolved in favour of Chromex and for Mecklenburg to provide a valuable source of ore in the medium to longer term.

We believe Chromex is well positioned to tackle the uncertain outlook for chrome as operations are cash flow positive and the Company enjoys a flexible business model, with limited overhead/operating costs, and is fully funded for its organic growth strategy. We believe volume and margin growth should drive significant cash flows, particularly relative to Chromex’s modest market capitalisation.

Commodity Outlook/Valuation Triggers

Chrome is a key input for the stainless steel industry with ~90% of mined chrome ore consumed as ferrochrome, a stainless steel, corrosion resistant, alloying agent. It is not surprising then that chrome demand and pricing has recently collapsed, due to weak demand and de-stocking, particularly in China. The supply side response by chrome and ferrochrome producers has been swift and significant, greater than just about any other commodity. Recent commentary from a number of producers and trading houses is that there has been a resumption of interest from Chinese and South African chrome offtake consumers after a number of months on the side lines, supporting prices in the near term. The medium-longer term fundamentals for chrome are relatively favourable because, unlike nickel, ferrochrome can not be substituted in stainless steel production, and demand is likely to be supported by its relative cost advantage to nickel and a secular trend to ferritic stainless steel (containing chrome).

The emergence of a primary export market, driven by Asian demand for chrome products rather than ferrochrome, has changed the chrome market which is now at a higher level of profitability even at current price levels. In our view chrome pricing and demand looks set to become further decoupled from ferrochrome in the near to medium term, driven by Chinese ferrochrome production capacity. Further fragmentation of regional growth rates/production capacity and gains in market share are expected to see chromes growth rate significantly outstrip that of stainless steel and South African sourced ferrochrome.

We believe there is a strong medium/longer term fundamental case for chrome: Demand growth from emerging markets, led by China, due to increased stainless steel and ferrochrome production; while Supply continues to be restricted with the majority of production controlled by a handful of significant scale integrated chrome/ferrochrome producers with structural barriers to entry within key markets. There are few pure play chrome producers in the market and AMCOL’s recent acquisition of Chrome Corp’s Ruighoek asset highlights industrial demand remains for even small scale producing assets. In our view chrome is a far more leveraged play to an improving stainless steel environment than ferrochrome and other stainless steel feed commodities.

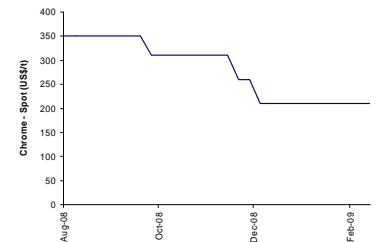
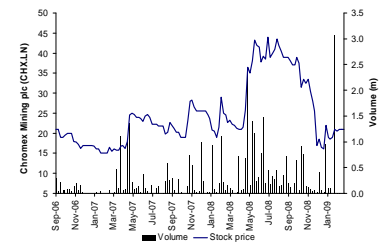
Risks

Whilst we are positive about the fundamental outlook for Chromex we believe near term macro and sector news flow is likely to remain challenging and dominate positive company specific news. However, we believe this provides an attractive entry point for the medium term story.

OCEAN EQUITIES Ltd

March 4th, 2009

Market Cap	£16.4m
Listing:Ticker	AIM – CHX
Share Price	£0.195
Shares o/s	84.25m
52 week High/Low	£0.46 / 0.15
Cash	£2m
Bloomberg	CHX LN



Highlighted Related Research

Chromex Mining plc: Jan’09 12th

“Fully funded, cash flow positive chrome producer”

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Disclosures & Disclaimer

Ocean Equities acts as co-broker to, and is seeking investment business from, Chromex Mining plc.

This report must be read with the disclaimer and disclosures on the final page that forms part of this report.

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Chromex – Initiation of Coverage

Index:

P2	Source of the opportunity
P2	Overview
P3	Company background
P4	Group structure
P4	Stellite project
P7	Mecklenburg project
P9	Board & Management
P9	Corporate Structure
P10	Group Strategy & Production Profile
P11	Peer Group Analysis
P13	Key Events/Valuation Triggers
P13	Risks

Appendix:

P14	Commodity outlook/Valuation Triggers
P14	Market outlook
P15	Changing Market Dynamics
P16	Chrome is a Stainless Steel story
P18	Snapshot of Supply & Demand
P18	Supply in more detail . . .
P20	. . . Demand in more detail
P20	Chinese Stainless Steel Outlook
P21	Pricing Environment
P22	Stainless Steel Market Overview
P23	Shareholders Analysis
P23	South African Mining Law and Black Economic Empowerment
P24	Contact details and disclosures

Key Assumptions:

Unless stated otherwise are: all pricing as of Mar'09 3rd and the currency is US\$.

Source of the opportunity

- **Flexible, fully funded business model:** Chromex is well positioned to tackle the current macro uncertainties as it enjoys: a flexible business model; limited overhead costs; first quartile operating costs; contract mining; and operations that are currently cash flow positive. The Company has £2m in the bank, a debt facility of £2m, and is fully funded for its organic growth strategy.
- **Organic growth strategy:** Production at Stellite is current operating at only 25% capacity while construction of a 40ktpm beneficiation plant is expected to be complete Apr'09. We believe Stellite, in the near term, coupled with the Mecklenburg asset, in the medium to longer term, makes the Company an attractive volume and margin growth story.
- **Preferred exposure to stainless steel:** In our view a recovery in stainless steel demand is likely to be led by China. Given China's ferrochrome and stainless steel capacity, and lack of domestic chrome supply, we believe chrome is a far more leveraged play to an improving stainless steel environment relative to ferrochrome and other stainless steel feed commodities (eg Nickel, Moly etc).
- **Secular case for chrome:** Medium/longer term demand is expected to be driven by the industrialisation and urbanisation of emerging markets, led by China, translating into increased stainless steel production, while Supply continues to be restricted with the majority of production controlled by a handful of large integrated producers with significant structural barriers to entry.
- **"Pure Play" chrome exposure:** We believe Chromex offers investors the greatest level of direct exposure to chrome available amongst its listed peers who are generally integrated chrome/ferrochrome producers or larger diversified miners (eg IFM, ENRC, Xstrata etc). AMCOL's recent acquisition of Chrome Corp's Ruighoek asset highlights industrial demand remains for even small scale producing chrome assets.

Overview

Chromex is an AIM listed junior chrome developer/producer with assets close to major platinum/chrome producers which has attracted little attention from the broader market but has been quietly setting the foundation for the development and production of its two key assets:

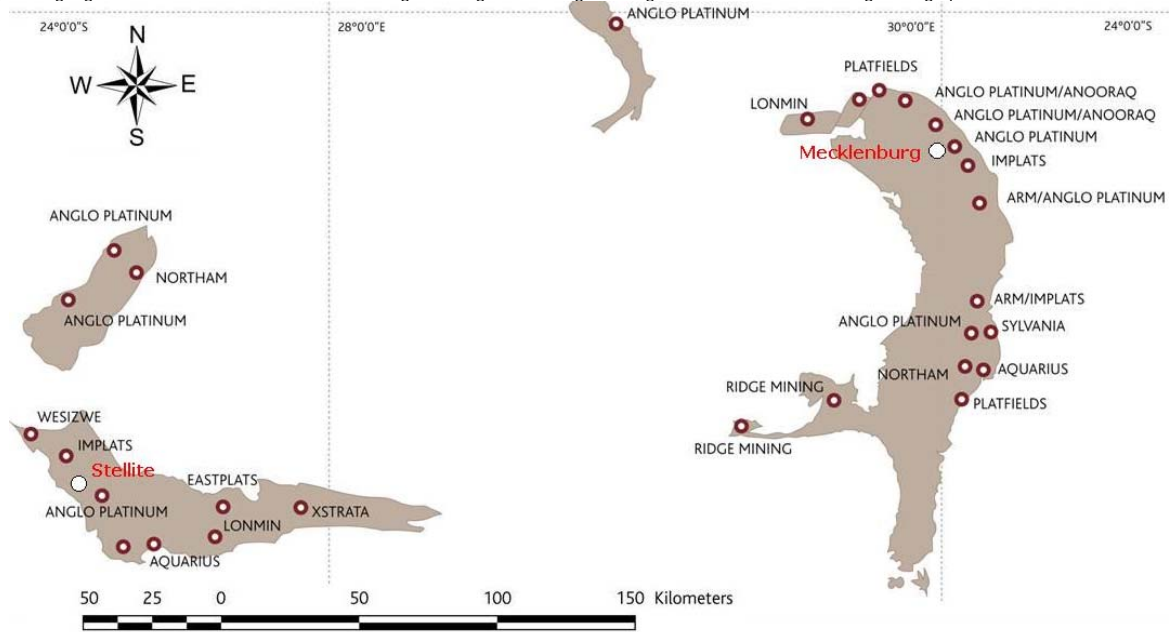
- **Stellite Project** – Chromex secured 100% of the asset in May'08, ahead of initial operations commencing in Jul'08. In Sept'08 8,500t of product was sold generating an operating profit in Stellite's first month of production. Despite current chrome prices and scaled down production, operations are ticking over generating positive cash flows and maintaining a working relationship with mining contractors (unlike a number of other operations/companies in the Bushveld).

The Company is currently constructing a permanent beneficiation plant on the Western Limb which will enable Chromex to capture a greater value add of ore from Stellite and toll treat 3rd party ROM chrome production from May'09. This will place the Company in an extremely favourable position to benefit from an uptick in chrome pricing and demand.

- **Mecklenburg Project** – This is the Company's original flagship project and enjoys 5.7mt of high grade reserves. In July'08 Chromex received the required Mining Right for Mecklenburg allowing the development of the project into production, which could commence in 2010 if market conditions for chrome improve and the conflict between Samancor and the DME over the tenor of the property is resolved. We expect resolution of the conflict to be granted in favour of Chromex and for Mecklenburg to be an attractive source of additional high grade ore at a favourable operating cost.

Chromex's management and technical teams both well known, proven and enjoy extensive experience in exploration, development and running producing mining assets (particularly in the Bushveld). Chromex is one of the "Pourouls group" of African mining company's which also currently include Kameni (PGMs), Tharisa Mining (PGMs & Chrome), Keaton Energy (Coal), TransAfrika Resources (Gold, Nickel, PGMs, Iron ore), Petra Diamonds (Diamonds), Chariot Oil & Gas (oil exploration play), as well as previous PGM companies including Eland Platinum (sold to Xstrata for US\$1.1b in Aug'07) and Barplats (now part of Eastplats).

Exhibit 1: The Stellite project is on the Western Limb of the Bushveld Complex . . . while Mecklenburg lies on the Eastern Limb
 Both projects highlighted in red font and white dot and neighbour significant neighbouring infrastructure and existing mining operations



Source: Ocean Equities

Company background

Chromex was formed in Sep'05 to acquire 74% of Chromex SA from Spruce Management Limited, with the remaining 26% held by Umnotho, the HDSA/BEE partner. Spruce is the private company which vended the Mecklenburg asset and was at the time issued 40m ordinary shares and remains the largest shareholder in Chromex (further details of Chromex's corporate structure are provided in the **Shareholder analysis** section of this report).

Chromex listed on AIM as a single asset Company in Sep'06

The Company listed on AIM in Sep'06 raising £0.87m at 20p p/sh to fund the bankable feasibility study for the Mecklenburg prospect (complete Mar'07), providing additional working capital and potentially funds for the acquisition of other chromite deposits.

Despite 2007 proving to be a frustrating year for the Company, which was impacted by delays in the licensing process for Mecklenburg and approval of the acquisition of Stellite, 2008 saw rapid progress. The key events in the Company's development have been:

- **Sep'06** – Listed on AIM, with 4.35m ordinary shares at 20p p/sh (one warrant for every ordinary share). At this point the Company's sole asset was the Mecklenburg project.
- **Jun'07** – Placement of 7m new ordinary shares at 25p p/sh to raise £1.75m (issuance of one warrant for every two shares allotted, such warrants entitling the holder to apply for further new ordinary shares at 35p p/sh at any time up to 30 Jun'09).
- **Aug'07** – Agreement to acquire 51% of the Stellite project from Mkhombi Stellite for ZAR34m (~£2.4m), split ZAR14m in cash and ZAR20m in Chromex shares at 25p p/sh.
- **Apr'08** – Completion of the Stellite acquisition following the issuance of a New Order Mining Right on March 7th.
- **May'08** – Chromex Board and Management changes, with Russell Lamming and Guy Gibbons appointed as Chief Executive and Finance Director respectively.
- **May'08** – Acquires the remaining 49% of the Stellite project from Hercul Ferrochrome Limited for ZAR45m (£3m). To fund the purchase, Chromex raised £4.5m through a placing of 11,250,000 New Ordinary Shares at 40p p/sh.
- **July'08** – New Order Mining Right granted for the Mecklenburg deposit by the DME.
- **July'08** – Open cast production commences at the Stellite project.
- **Sept'08** – First chrome sales ahead of schedule and the Company announced a 133% increase in the planned production rate at Stellite.
- **Oct'08** – SAMREC compliant resource increases the resource estimate by 116% at Stellite to 31.9mt.
- **Nov'08** – Dispute lodged by Samancor over the DME grant of a New Order Mining Right granted for the Mecklenburg deposit to Chromex in Jul'08. The dispute remains unresolved.
- **Jan'09** – Finalises financing of to construct a new processing facility at Stellite.
- **Jan'09** – Signed MoU with Metalmin Metals and Minerals Ltd for production from Stellite.

Chromex secured its second asset, Stellite in May'08

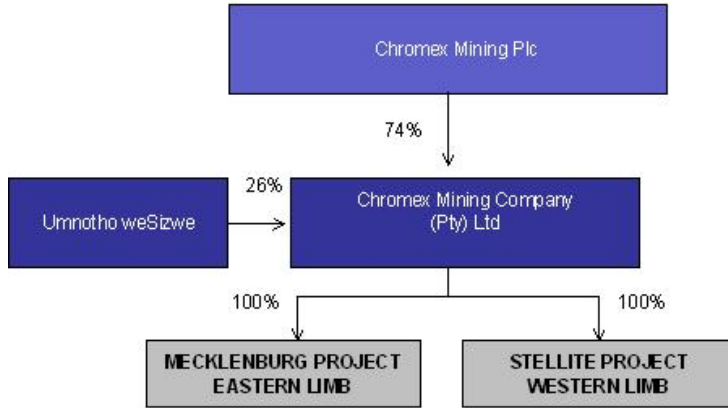
Initial production commences in Jul'08

Group structure

Chromex's group structure is in accordance with current and proposed South African BEE legislation

Chromex through its subsidiary company, Chromex Mining Company (Pty) Ltd, has established a Black Economic Empowerment ("BEE") structure in accordance with the South African mineral legislation, under which Chromex has controlling interests in and manages both mining projects. Chromex's BEE partner is Umnqotho weSizwe (refer to the section on "South African Mining Law and Black Economic Empowerment" in the **Appendix** for further details).

Exhibit 2: Simplified corporate structure of Chromex



Source: Chromex

Stellite Project

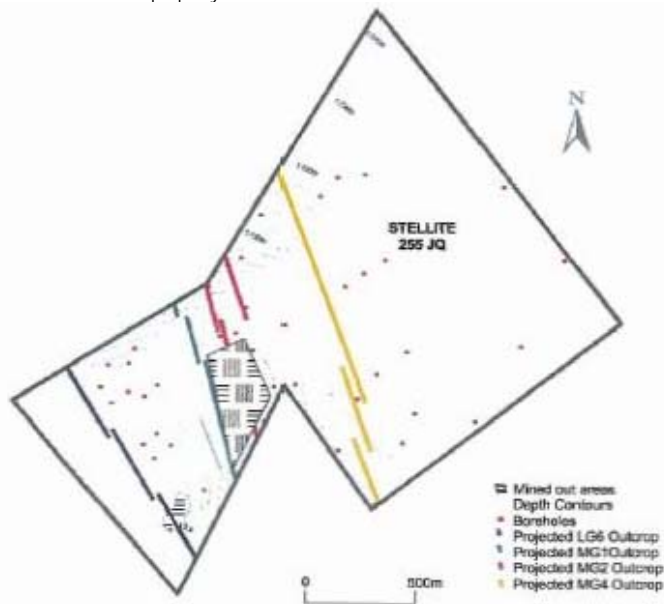
Stellite is only ~25km from Rustenburg on the Western Limb of the Bushveld Complex and has access to the required existing neighbouring infrastructure

The 271 hectare Stellite chrome project is located on the Western Limb of the Bushveld Complex, ~25kms from Rustenburg, a major centre for platinum and chrome mining. Rustenburg is one of South Africa's fastest growing cities and services a significant number of neighbouring mining operations.

Regional Geology and Infrastructure

The primary targets at Stellite include the LG6, MG1, MG2, MG3 and MG4 chromite layers of the Lower-Critical and Middle-Critical Zones of the Bushveld Complex which at the property strike NNW-SSW with a dip of ~8° (typical within neighbouring operations). The vertical separation between the LG6 and MG1 layers is ~60m, with a parting of ~15m between each of the respective MG group layers.

Exhibit 3: Stellite project geology
The Stellite 255 JQ property



Source: Chromex

Eskom power is available from one of two substations, one at Xstrata's Boshhoek smelter ~2km north-west of Stellite, the other an Eskom substation at Spoornet rail line on the western farm boundary, and there are various sources of local water. The nearest railway runs immediately southwest of the property, with a siding at Xstrata's adjacent Boshhoek smelter, but current production is being sold at mine gate.

Mineral resources

A SAMREC compliant resource of 31.9mt was published in Oct'08. . .

. . . which saw the open cast resource increased 43%

We expect in time that underground operations will significantly extending the mines life and economics of the project

The most recent exploration programme comprised of 20 diamond core holes with the primary objective to enhance the understanding of the structural framework and upgrade the directors' resource estimates for the LG6, MG1, MG2, MG3 and MG4 seams. Data from the previous drilling programme (55 boreholes) was also considered and led to a SAMREC compliant resource being announced in Oct'08 of 31.9mt in the inferred category, a 116% increase on the previous director's estimate.

Importantly for the economics of the project the open cast resources increased 43% to 6.7mt, while underground resources increase 150% to 25.2mt. A depth of 40m below surface was selected as an indicative opencast limit and the tonnage contributions calculated are estimated to be the total open-castable resource available. The grade and quality of Stellite's ore are in line with most South African chrome deposits and sufficient, with simple and minimal cost beneficiation, to provide lumpy, chip, metallurgical, chemical and foundry grade products.

The current open cast resource is sufficient for at least the first four years of production (assuming a full capacity annualised production rate of 70ktpa ROM), and includes a combination of the higher grade LG6 and MG1 seams and the lower grade MG2-4 seams. The Company will now focus on upgrading the inferred resource through additional drilling and look at the feasibility of developing underground resources (expected to be complete early 2010), which as can be seen by Exhibit 5 is expected to unlock significant value as the underground resource currently stands at 25.2mt (including 11.8mt of LG6 seams). Underground operations could provide supplementary high grade ore from 2012 further improving the Company's product mix, significantly improving the current mine plan and the average price realised from the project.

Exhibit 4: Stellite estimated resources¹ – October 2008

Chromite Seam	Opencast Mineral Resources				Underground Mineral Resources			
	Tonnes (mt)	Cr ₂ O ₃ (%)	Cr:Fe	Classification	Tonnes (mt)	Cr ₂ O ₃ (%)	Cr:Fe	Classification
LG6	0.55	40.8	1.5	Inferred	7.81	40.8	1.5	Inferred
LG6A	0.28	38.8	1.4	Inferred	3.98	38.8	1.4	Inferred
MG1	1.09	39.8	1.4	Inferred	3.63	39.8	1.4	Inferred
MG2	1.60	36.9	1.3	Inferred	3.29	36.9	1.3	Inferred
MG4U	1.84	36.0	1.3	Inferred	3.85	36.0	1.3	Inferred
MG4L	1.33	36.0	1.3	Inferred	2.66	36.0	1.3	Inferred
Total	6.70	37.3	1.3		25.23	38.6	1.4	

¹ Total resources controlled by Chromex

Source: Chromex

Mining Operations

Contract open cast mining commenced in July'08

Limited opencast trial mining was historically undertaken at Stellite by Herculite, primarily on the MG1 Layer where ~120kt was removed while a bulk sample of ~40kt was extracted from the LG6 Layer. Given the homogenous nature of the Bushveld complex's geology, Xstrata's neighbouring operations, past exploration and mining activities on the property, and initial operations being under limited overburden, Chromex began contract opencast mining in Jul'08 prior to achieving a SAMREC compliant resource. It is worth highlighting that Chromex is employing contract mining, thus enjoying low overhead/operating costs, and has a great deal of flexibility over its production levels.

Operations currently enjoy relatively shallow dipping chromite reefs facilitating a simple opencast operation and initial Run Of Mine ore ("ROM") were stockpiled until a contract mobile crushing and screening plant was secured which allows Chromex to sell partly beneficiated ore, generating 75% higher revenue with only an 8% increase in opex.

Chromex now expects to produce 70ktpm ROM at full capacity subject to market conditions

In early Oct'08 Chromex announced that it has increased its full production ROM capacity by 133% from 30ktpm to 70ktpm, from early 2009 subject to market conditions. Current operations are at 25% capacity producing sized ROM sales, utilising the current mobile crushing and screening plant in Exhibit 6, but still providing favourable early positive cash flows while the construction of a beneficiation plant will enable the Company to capture a greater value add of internal and 3rd party ROM chrome production from May'09. To date a total of 92.5kt ROM chromite material has been mined at a stripping ratio of ~7.1 cubic metres of overburden per ton of chromite ore. ROM chromite is currently crushed to -100mm and screened to -100+10mm and -10mm size fractions using contractor operated mobile crushing and screening units.

Sand products from a new beneficiation plant are expected to achieve a 67% price premium to ROM from May'09. . .

Plans for the construction of the new Stellite processing plant were finalised in early Jan'09. The plant is expected to be commissioned at a cost of ~ZAR22m (£1.5m) and has been designed to process ~40ktpm ROM. When operational, it will enable Chromex to supply a range of products including chemical grade and metallurgical grade sands in addition to chrome ore currently being produced. The construction of the plant allow Chromex to deliver a range of products to market which have the ability to positively impact future revenues. Even at the current sands price (estimated to be ~US\$75/t versus ~US\$45/t for ROM product) the payback period on the project is ~12 months (assuming an operating margin of ~US\$20/t at the current levels of production, ie 10ktpm or ~25% of capacity).

. . . but most importantly favourably position the Company to an improvement in market conditions

The favourable shift in product mix from ROM to chemical and met sands due to the processing plant is expected to see a 67% increase in revenues. However, the most important aspect of the construction of the processing plant is the ability of Chromex to produce a range of products with greater value add, which are significantly more leveraged to an improvement in market demand and pricing.

As discussed in greater detail **Group Strategy and Production Profile** section Chromex is currently balancing the benefits of keeping operations ticking over/gaining a better understanding of the orebody versus unnecessarily depleting the resource at current chrome prices (towards the bottom of the cycle).

To finance the plant construction Chromex secured a loan facility of ~ZAR30m (£2m) and the lender has, subject to South African Exchange Control approval, the option to convert the loan into Chromex ordinary shares at a 22p strike price before Jan'11.

Exhibit 5: Illustration of the simple near surface mining at Stellite



Source: Chromex

Exhibit 6: Current mobile Crushing and Screen Plant



Source: Chromex

Exhibit 7: Relatively shallow dipping chromite reefs facilitate a simple opencast operation



Source: Chromex

Offtake agreement

On the 29th Jan'09 Chromex signed a Memorandum of Understanding ('MoU') to supply a minimum of 10ktpm of metallurgical grade sands to Metalmin Metals and Minerals Ltd, a leading international chrome trading company. Sales will commence once the Stellite processing plant has been commissioned, which is expected by the end of Apr'09. The parties are currently concluding the definitive off-take agreement which will be on a take-or-pay basis with the contract price agreed quarterly.

Recent commentary from a number of producers and trading houses is that there has been a resumption of interest from Chinese and South African chrome offtake consumers after a number of months on the side lines, supporting prices in the near term. We believe this has placed Chromex in a significantly improved negotiating position relative to January.

Mecklenburg Project

Mecklenburg lies next to Anglo Platinum's Twickenham mine providing access to infrastructure

The asset is currently not being developed because of the current market and an ongoing dispute.

. . . we expect the conflict to be resolved in Chromex's favour and Mecklenburg to be an attractive source of high grade ore at favourable opex

Mecklenburg is the Company's second asset, being the original flagship project that Chromex was formed to acquire, and is a higher grade, underground deposit. It covers ~1,934ha and is situated on the Eastern limb of the Bushveld Complex in the Limpopo Province, ~40km northwest of Bugersfort, in an area including the Winterveld Sector which enjoys a long history of chromite and PGM mining. Notable surrounding mines include Dilokong (jointly owned by ASA Metals and the Chinese Government), and the Steelpoort, Doornbosch and Mooihoek sections of Samancor Chrome. Importantly, the project's location will allow Mecklenburg to tap into the water, electricity and tailings infrastructure from Anglo Platinum's Twickenham mine.

Chromex received the required Mining Right for Mecklenburg from the DME in Jul'08, allowing the development of the project into production. However, at the current point in time the project is not being developed given the macro/chrome environment (>70% of global ferrochrome production is currently curtailed), and the ongoing conflict between Samancor and the DME over the tenor of the property.

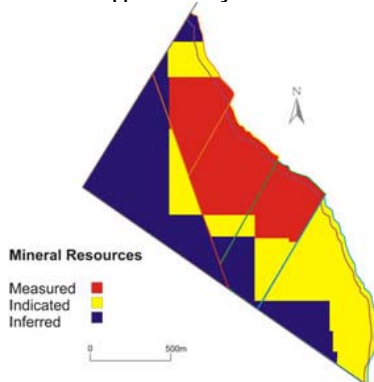
In Nov'08 Samancor applied to the High Court in South Africa to dispute the decision by the DME to reject its application on Portions 2 and 5 of the Mecklenburg farm and set aside the New Order Mining Right granted to Chromex. In Jun'07 the DME accepted Chromex's application for a Mining Right and at the same time notified the Company that there was another application for a mining right at Mecklenburg. A subsequent review commissioned by Chromex conducted by Harrison Attorneys, a Johannesburg law firm specialising in this area of the law, found that Chromex held the Old Order Right as well as the New Order Right for the Mecklenburg farm. We believe this view was confirmed and verified by the DME's decision to grant Chromex a New Order Mining Right a year later (Jul'08). The Board of Chromex is fully confident of its position regarding the Mecklenburg farm and its right, as awarded by the DME in accordance with South African law, to develop the property. While there has been no new evidence backing Samancor's application it is expected that the dispute will take a period of time to resolve.

We believe the action taken by Samancor, the 3rd largest global producer of ferrochrome, and the approval process required in South African, are typical examples of the power held by the current integrated chrome/ferrochrome producers and the barriers to entry inherit in the industry. Chromex originally secured tenor over the farm in Sept'05 (when the Company was formed), and has followed the required process to develop the asset to the letter of the law and now over 3 years later is still not in a position to develop the Mecklenburg asset (regardless of the current state of the market). In our view Samancor's continued actions highlights the value they see in the Mecklenburg asset and we expect resolution of the conflict to be granted in favour of Chromex and for Mecklenburg to become an attractive source of additional high grade ore at a favourable operating cost once market conditions improve.

Regional Geology

The LG6 seams are the most important chromite targets in the Bushveld Complex as they combine both the highest grades and uniform thickness. Analytical results from the LG6 and LG6A chromite layers at Mecklenburg substantiate the geochemical continuity known throughout the regional area and the two seams are separated by a pyroxenite parting creating a combined LG6 unit which is ~2.5m thick. The two chromites form a composite between 1.2m and 1.5m thick. The LG6 layer outcrops at the base of a prominent hill called Serafa located on the western edge of the Mecklenburg farm.

Exhibit 9: Approximately 60% of the mineral resource has been converted into reserves to date



Source: Chromex

Mineral Resources and Reserves

Four key phases of exploration have been conducted at Mecklenburg, with the first 3 phases conducted by previous owners. Chromex between Sep'06 and Jan'07 drilled eight holes (totalling 805m) in order to test and confirm the mineralisation and geology of the deposit and to upgrade the resource classification on the property.

The Mecklenburg deposit enjoys LG-6 seams and has a reserve of 5.7mt

Exhibit 10: Mecklenburg reserves and resources ¹

Chromite Seam	Mineral Reserves			Mineral Resources				
	Tonnes (mt)	Cr ₂ O ₃ (%)	Cr:Fe	Classification	Tonnes (mt)	Cr ₂ O ₃ (%)	Cr:Fe	Classification
LG6	3.15	27		Proven	2.43	44	1.72	Measured
LG6a					0.81	43	1.68	
LG6	2.53	27		Probable	1.95	44	1.74	Indicated
LG6a					0.67	43	1.7	
LG6					2.37	42	1.66	Inferred
LG6a					0.82	41	1.67	
Total	5.68	27			9.05	43	2	

¹ Total resources controlled by Chromex

Source: Chromex

The 9.05mt LG6 and LG6A Chromite Layer resource is quoted as an in-situ resource with no depletions or reserve modifying factors applied. Of the total resource, 3.24mt (36%) is Measured, 2.62mt (29%) Indicated and the balance of 3.19mt (35%) classed as Inferred. Due to the historical understanding of the behaviour of the orebody it is felt that the Inferred resource can be mined at a high degree of confidence. Furthermore, as the mining operations expand and add to the geological database, confidence will increase rapidly.

Geological and mining losses, recovery (percentage extracted) and dilution were applied to the Measured and Indicated resource in order to estimate a Proven and Probable reserve to be depleted in the life of mine plan.

Mining Potential

In Mar'07, a Bankable Feasibility Study ("BFS") on the Mecklenburg project was compiled on behalf of Chromex by RSG Global (Coffey Mining). On the basis on this work the Company believes an operation producing ~60tpm of underground ROM is possible over at least a 10 year period. The main access development is expected to consist of three declines which will be developed on-reef. Due to the weathered nature of the immediate surface area, a 60m crown pillar will separate the surface outcrop from the underground workings.

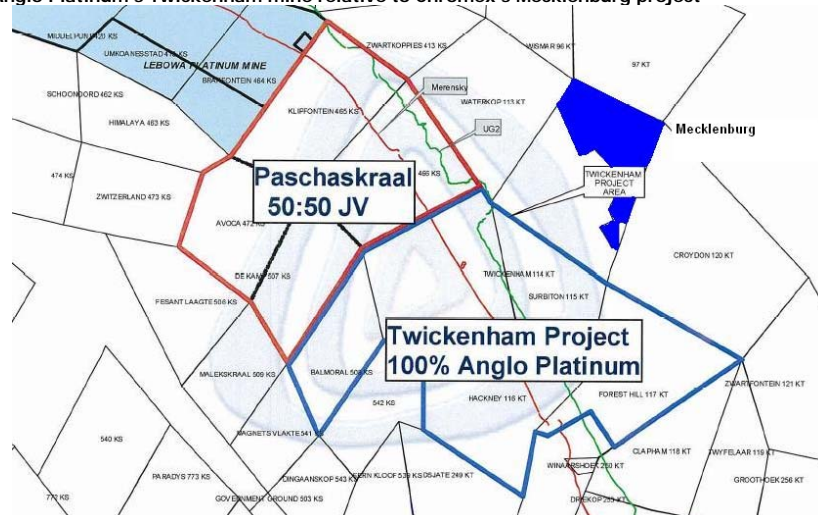
It is intended that the LG6 and LG6a seam will be mined simultaneously with the intervening chromitiferous pyroxenite at a mining width of ~2.7m. It is anticipated that a moderate percentage of the ore will remain as coherent blocks or fragments producing a product called lumpy ore, the preferred product for supply to smelters. Other mines close to Mecklenburg have produced up to 40% lumpy ore and given the physical test-work from the trial mining exercises it is anticipated that lumpy production from Mecklenburg will be at a similar level.

Infrastructure

The Mecklenburg property is located contiguous with Anglo Platinum's Twickenham mine and Chromex has been able to negotiate electricity and water supply, and the construction of a waste rock, slimes dam, and water return dam with Anglo Platinum. We believe this agreement significantly de-risks the Mecklenburg project and greatly reduces the projects capex profile.

Mining at Twickenham produced 9,300oz of equivalent refined platinum production in FY'07 via trial mining. An \$800m expansion project was approved in 1Q'08 and the project will significantly expand current operations providing an incremental 180kozpa from 2016.

Exhibit 11: Anglo Platinum's Twickenham mine relative to Chromex's Mecklenburg project



Source: Anglo Platinum

Company Management

In May'08 the Company completed a reorganisation of its management team to bring together the required experience and complementary skill sets to advance its projects from explorer/developer to producer. Chromex's management and technical teams are both well known, proven and enjoy extensive experience in exploration, development and running producing mining assets (particularly in the Bushveld), and is part of the "Pouroulis group" of African mining company's.

Russell Lamming – CEO

Russell has a broad range of experience in the resource sector including directorship of a South African mining consultancy and precious metals analyst for a leading international broker. More recently he led the commercial process at African Platinum Plc and was part of the technical team responsible for the development of the Leeuwkop project. He was intimately involved in the sale of this company to Impala Platinum in 2007. Russell joined Chromex in May'08 and is a key addition to the management team; bringing with him 10 years experience required to assist the Company make the transition from developer to successful producer.

Phoevos Pouroulis - Commercial Director

Phoevos, who holds a BSc degree in Business Administration from Boston University, is a businessman who has started and planned various Africa companies. He was a commercial consultant involved in the development of a number of mining projects, including advising Chromex on its establishment, and now has been appointed commercial director to the Company. He is currently Chairman of Spitfire Music South Africa and is on the board of Keaton Energy.

Guy Gibbons -Finance Director

Guy is a South African chartered accountant and has previously held various financial positions at Lazard Limited, Pearson plc and Mindscape International Limited before joining Penguin Books Limited as head of financial control. In 2001 he joined Metal Bulletin plc as head of finance until 2007 when he took up a position as a consultant with Marwyn Investment Management LLP.

Nigel Wyatt - Technical Director

Nigel Wyatt in May'08 stepped down from his position as Chief Executive but remained on the Board as an Executive/Technical Director. Nigel is a graduate of the Camborne School of Mines, and has held senior positions in a number of mining and engineering companies, primarily in South Africa. These include group marketing director of a De Beers subsidiary group supplying specialised materials, engineering and technology to the industrial and mining sectors, and commercial director of Dunlop Industrial Products (Pty) Ltd, South Africa.

Graham Stacey - COO

Graham is a mining engineer with more than 10 years of operational experience in the sector, working with Anglo Coal and more recently as a Director at Venmyn Rand. At Venmyn he was involved in independent competent persons reports, the valuation and strategic analysis of mineral projects, technical due diligence on resource projects, and bankable feasibility studies. His operational expertise and knowledge of the broader resources environment will help position Chromex to develop its existing projects to their full potential as well as look for strategic bolt on acquisitions.

Board of Directors

Brian Moritz - Chairman

Brian is a chartered accountant and former Senior Partner of the London office of Grant Thornton. He is currently chairman and director of a number of junior mining and exploration companies, the majority of which are AIM companies operating in Africa. He has been registered by the London Stock Exchange as a nominated adviser for companies seeking admission to the AIM Market and a Listed Company sponsor.

James Burgess – Non Exec Director

James has spent 20 years working in the City. Having worked with Sheppards and Chase, Pinchin Denny and CT Pulley, in 1992 he set up his own business, Everett Financial Management, which he chaired until 2003, when the business was sold to Sky Capital, an AIM quoted stock broker.

Vusi Nkosi – Non Exec Director

CEO of Umnotho, Chromex's BEE partner. He has developed the portfolio of Umnotho to include diamond, platinum and coal assets thereby gaining substantial experience in the African resource sector. He is an International Management post-graduate of the University of Pretoria.

Robert Sinclair – Non Exec Director

Robert is the Managing Director of Artemis Trustees Limited, the Guernsey-based fiduciary services group. He has over 37 years experience in finance and accounting, of which 27 years have been spent in the Guernsey financial services industry. Robert is a Fellow of the Institute of Chartered Accountants of England and Wales.

Company corporate structure

Chromex's market cap is £16.4m (~US\$23m; priced COB Mar'09 3rd) with an Enterprise Value (EV) of £14.4m (~US\$20.2m – Cash of £2m and an undrawn credit facility of £2m as at Dec'08). Chromex trades on the AIM stock exchange as CHX.LN, with average weekly trading volume over the last 6 months of ~320k shares. The Company's current corporate structure includes 84.25m ordinary shares, with 7.69m unlisted warrants (ranging from 20p-35p), and 2.58m options (mainly management options with an exercise price of 20p /sh or 25p /sh). Refer to Exhibit 47 in the "Shareholder analysis" of the **Appendix** for a history of the Company's past capital raisings.

Chromex's cash at the end of Dec'08 was £2m, and the Company is fully funded for its current organic growth strategy with a further £2m credit facility. The percentage of the Company's issued shares not in public hands (i.e. held by directors, management and shareholders with greater than or equal to 10% of the issued share capital, is ~51% (Refer to Exhibit 46 in the **Appendix** for further details).

Group Strategy and Production Profile

Group Strategy

Current production from Stellite is ~10ktpm, only 25% capacity. Despite this ROM sales are generating a margin in excess of US\$10/t. The Company is carefully balancing its wish to keep operations ticking over (generating positive cash flows, gaining a better understanding of the orebody, maintaining a working relationship with mining contractors - unlike a number of other operations/companies in the Bushveld, thereby placing itself in the best position possible to benefit from an improvement in market conditions) versus depleting the resource at current chrome prices and producing ROM before the beneficiation plant is complete and we see a recovery in chrome pricing.

In our view it is a very prudent strategy that Chromex is currently undertaking by keeping production to minimum levels (despite the favourable margins it still currently makes), whilst constructing the processing plant (payback period ~12months) which will enable the Company to produce a range of products with greater value add that are significantly more leveraged to an improvement in market demand and pricing. It is obvious the Company is not running the operation for immediate cash but strategically placing itself to be best positioned to benefit from the favourable medium to longer term outlook for chrome.

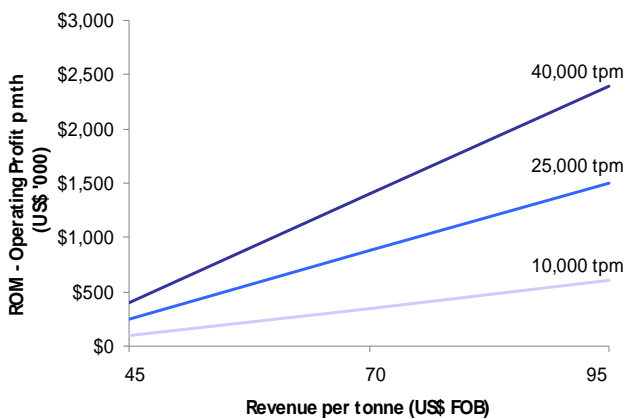
Chromex was originally set up to undertake a strategy to grow its resource base, either organically or by acquisitions, with near production projects to take advantage of the robust medium to longer term demand in the chrome/ferrochrome and stainless steel markets. We believe once market conditions stabilise and improve this same original strategy will increasingly become evident again.

Stellite Production Profile

Production is currently sourced from the Stellite project which open cast, contract mining having commenced in Jul'08. While we talk about the current chrome market environment in greater detail in the **Appendix** it is worth highlighting at this point that Chromex enjoys an extremely flexible business model, employing contract mining and currently utilising a mobile contract crushing/screening plant at Stellite. Overheads are very low and the Company generates significant operating margins even at current prices because of its low relative capex and opex. We believe this business model places Chromex in an extremely flexible and favourable position given the current uncertainties facing the general market, and stainless steel/chrome demand specifically.

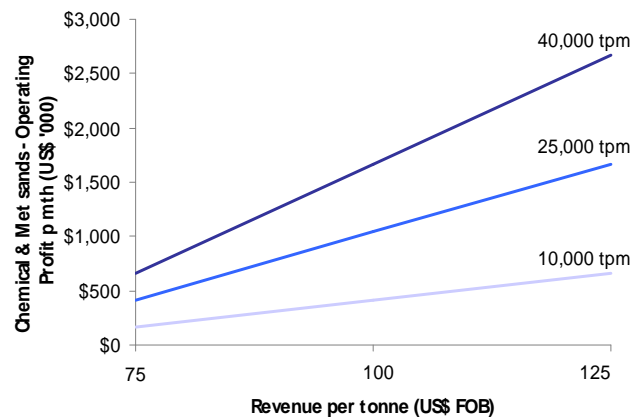
From May'09 Chromex will be able to produce a range of various products. Currently the Company has a MoU offtake agreement with Metalmin Metals and Minerals Ltd to supply a minimum of 10ktpm of met grade sands. As discussed above we believe the level of production Chromex supplies at this point in the cycle/current chrome environment is not as important as how it positioning itself for an improvement market condition. However, to help illustrate the favourable cash flows and operating margins that Chromex is currently making and the leverage it has to an improving price and demand environment we have provided the below Exhibits.

Exhibit 12: ROM operating margins are currently >US\$10/t at current prices



Source: Chromex, Ocean Equities

Exhibit 13: Processed ore from May'09 is expected to generate a margin of ~US\$20/t but enjoys greater leverage to an improvement in market prices than ROM



Source: Chromex, Ocean Equities

Exhibit 14: Simple sensitivity analysis of ROM and Sands production illustrates the favourable cash flows available to Chromex

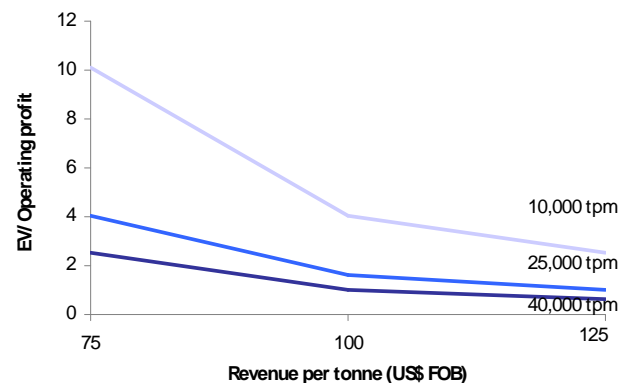
Current production and prices highlighted in grey

ROM Production (tpm)	Price (FOB USD/t)		
	45	70	95
10,000	\$100	\$350	\$600
25,000	\$250	\$875	\$1,500
40,000	\$400	\$1,400	\$2,400

Sands Production (tpm)	Price (FOB USD/t)		
	75	100	125
10,000	\$167	\$417	\$667
25,000	\$417	\$1,042	\$1,667
40,000	\$667	\$1,667	\$2,667

Source: Chromex, Ocean Equities

Exhibit 15: Expected operating earnings from sands production alone highlights the favourable leverage that Chromex enjoys



Source: Chromex, Ocean Equities

Mecklenburg project - attractive source of additional high grade ore at a favourable operating cost.

In the BFS completed in Mar'07 it was envisaged that Mecklenburg would produce ~60ktpm. The BFS is currently being revised and assuming that the Samancor conflict is resolved timorously, we believe that Mecklenburg is an attractive asset and will become an additional source of high grade ore at favourable economics.

SWOT analysis

Given the current market environment we believe certain sectors are better positioned than others. Specifically we prefer:

- Upstream (mining) industries to downstream (processing). Summary: Production of chrome is a upstream industry and we prefer chrome relative to ferrochrome;
- Consolidated relative to fragmented commodity markets, as they are in a much stronger relative position to negotiate pricing and appropriately reduce supply (global ferrochrome production has been reduced by >70% since Oct'08). Summary: Chrome and ferrochrome are both relatively consolidated markets which have cut production greater than just about another other commodity;
- Volume growth over price plays, as we expect margins to get compressed in the near term and it is unlikely that they will return to 2008 levels any time soon. Summary: Chromex has an attractive fully funded organic growth strategy which is cash flow positive at current chrome prices; and
- Exposure to commodities that China is short, as these are most leveraged to a pick up in Chinese industrial demand. Summary: The key driver of stainless steel feed commodity prices has been Chinese stainless steel demand, and China is short chrome and increasingly becoming long ferrochrome capacity. Ie we prefer chrome relative to ferrochrome.

On this high level structural basis chrome, and Chromex, appear well positioned. A more detailed SWAT analysis is provided below but it is worth again highlighting that there are few listed pure play chrome producers and we believe Chromex offers investors unique exposure to the relatively favourable medium/longer term outlook for chrome, particular given the Company's flexible business model, low relative overheads and a favourable financial position.

Exhibit 16: Chromex SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> - Organic growth strategy, with first project already in positive cash flows - Fully funded with a flexible low cost business model - Structural barriers to entry & consolidated industry structure - Significant existing resources with granted New Order Mining Rights - Strong management team with hands-on experience - Leveraged play to an improving Chinese stainless steel market 	<ul style="list-style-type: none"> - Junior, single commodity company - Relatively small market cap & consolidated shareholder register - Limited promotion, liquidity in the stock and listing on AIM - Near term outlook for stainless steel demand - Lack of differentiation in the market between chrome & ferrochrome - Lack of visibility for pure chrome demand & stockpiles
Opportunities	Threats
<ul style="list-style-type: none"> - Converting significant existing resources into mineable reserves - Securing commercial terms for marketing/off-take agreements - Increased value add from beneficiation of internal and 3rd party ore - Ramping up production in line with improving demand & pricing - Development of Mecklenburg & corporate activity (both target and predator) 	<ul style="list-style-type: none"> - Execution risk - Commodity prices and exchange rates - South African political risk and reduced barriers to entry for the chrome market - Increased chrome supply and reduced stainless steel production - Unfavourable outcome or delays in the resolution of the Mecklenburg dispute

Source: Ocean Equities

Peer Group Analysis

As our peer group analysis below illustrates there is a lack of pure play chrome producers. As listed peers we have included mostly upstream steel manufacturer suppliers and integrated chrome/ferrochrome producers.

Exhibit 17: As can be see from our peer group, there are few ways to gain pure play exposure to chrome

Company	Symbol	Primary commodity	Last	Mkt Cap	EV	PE			EV/EBITBA		
						2008	2009	2010	2008	2009	2010
Juniors/Mid Cap - Base Metal Producers						EPS Adjusted					
ENRC	ENRC LN	Various Ferrous metals	4,272	8,898	5,245	2.5	8.7	4.8	1.2	3.8	2.3
IFM	IFL LN	Chrome/Ferrochrome	200	171	107	2.9	-	29.7	1.4	-	7.8
Merafe	MRF SJ	Chrome/Ferrochrome	2,681	352	141	1.3	-	7.2	0.8	13.2	3.3
Median					141	2.5	8.7	7.2	1.2	8.5	3.3
Majors - Base Metal Producers											
Anglo America	AAL LN	Diversified	19,497	39,912	31,435	2.9	8.4	7.2	2.6	5.1	4.5
Aquarius Platinum	AQP LN	Platinum	494	844	875	2.4	-	10.9	1.5	11.9	4.8
Eramet	ERA FP	Mining & Processing	3,935	6,826	3,679	4.5	14.2	10.8	2.0	5.4	4.2
Vedanta	VED LN	Mining & Processing	2,551	7,181	6,116	2.6	7.1	12.2	2.1	4.0	5.0
Xstrata	XTA LN	Diversified	10,930	34,698	22,977	1.0	5.7	4.2	2.3	4.1	3.2
Median					6,116	2.6	7.8	10.8	2.1	5.1	4.5
Company	Symbol	Tenements	Last	Mkt Cap	EV	Resource			Multiple		
						Tonnes (mt)	Cr2O3 (%)	Cr:Fe	EV/t		
Prue play chrome producers											
Chrome Corp	CCI AU	Ruigoek/Bathlako	0.085	6	12	12.81	43.65	1.54	0.9		
Chromex	CHX LN	Stellite/Mecklenburg	0.195	23	20	37.60	42.90	1.58	0.5		

Source: Bloomberg, Ocean Equities Research

Comparable transaction multiples

Due to the integrated nature of the ferrochrome/chrome industry and the recent collapse in ferrochrome/chrome demand and prices we believe there are few comparable transaction multiples applicable for Chromex under current market conditions. There were a number of transactions last year within the global industry including: Mechel of Russia's acquisition of Kazakhstan Oriol; ERNC's acquisition of the Serov Russian tenements; Ruukki acquisition of Kermas Turkish asset etc, which illustrate that there is significant interest in upstream M&A within the ferrochrome/chrome industry.

However, one recent transaction we believe provides a very position read across for Chromex. AMCOL has agreed to pay up to A\$41m (or US\$26.4m) for Chrome Corp's Ruighoek chrome asset. The implied valuation for Chromex is extremely positive. On an in-the-ground basis the implied valuation of Chromex's interest in Stellite only (only ~50km from Ruighoek) is ~US\$66m (total project value of ~US\$90m). Chromex's current market cap is ~£16.4m, or ~US\$23m, implying a comparable transaction value of ~56p p/sh for Chromex excluding the Company's Mecklenburg asset (which is the original flagship asset).

On Feb'09 26th Chrome Corp (CCI.AU) completed Stage 1, the sale of 53%, of its Ruighoek chrome asset to AMCOL International Corporation ("AMCOL") for US\$14m. AMCOL has the option to acquire the remaining 47% of the asset in the next 24 months (with the call option costing US\$75kpm for the first 12 months and US\$150kpm for the second 12 months) and a second payment US\$12.4m, bring total consideration to US\$26.4m (excluding option fees). A conditional sales agreement was first announced in Mar'08 but changes in markets conditions and the time required to fulfil all conditions precedent (in particular the regulatory approvals in South Africa) meant that it took considerably longer to complete the transaction than expected (this is a further example of the barriers to entry within the sector).

The Ruighoek chrome project sits on the Western Rim of the Bushveld Complex, only ~25km from Rustenburg. Chrome Corp acquired the Ruighoek asset for A\$8m in Apr'05 from Samancor, who had closed the operation in 1993 as part of a rationalisation of its smaller operations during a period of low chrome prices (~US\$65/t). According to Chrome Corp it had received a number of unsolicited approaches from chrome industry participants, at even higher valuations prior to agreeing to the AMCOL transaction.

Having gained a Mining Right in Jun'08 open cut mining operations from the LG6 and LG6A seams commenced in Oct'08, and following Stage 1 completion AMCOL will take full operational control of the operations. Chrome Corp originally envisaged annual production of 300ktpa (~25ktpm) producing mainly non-metallurgical product (Foundry 46.7%; Chemical 18.2% and Met grade 13.9%). The asset has open cast resources of only 1.3mt LG6/LG6a and underground resources of 11.5mt.

The implied valuation of Chromex's Stellite project, which lies only ~50km from Ruighoek, is extremely favourable. Although Ruighoek grades are slightly higher than Stellite its production capacity is only ~40% and simple/low cost beneficiation will provide a similar product mix. Applying the total resource multiple paid for Ruighoek, Chromex's interest in Stellite alone is worth ~US\$66m, more than 2.8x Chromex's current market capitalisation. Assume the limited open cast resources at Ruighoek the implied valuation of Stellite would be significantly higher. Given the consolidated market structure of the chrome industry, and there being few small scale producers we expect M&A to continue particularly once market conditions stabilise and improve.

Exhibit 18: Chrome Corp implied valuation

Target company	Acquiring company	Tenements	Location	Deposit	Category	Value (\$US m)	Resource			Proposed Production '000t pa	Attr interest %	Multiple Resource	
							Tonnes (mt)	Cr ₂ O ₃ (%)	Cr:Fe				
Chrome Corp	AMCOL	Ruighoek	Western Bushveld	Open Cast									
				LG6	Indicated		0.81	43.21	1.54				
				LG6	Inferred		0.41	37.97	1.43				
				LG6a	Inferred		0.08	34.65	1.41				
				Total Open Cast			26.4	1.31	41.01	1.50		74%	27.27
				Underground									
				LG6	Inferred	26.4	11.50	43.95	1.55		74%	3.10	
Total			26.4	12.81	43.65	1.54	300	74%	2.79				
Chromex		Stellite	Western Bushveld	Open Cast	Inferred		6.70	37.34	1.34				
				Underground	Inferred		25.23	38.60	1.39				
				Total			31.92	38.33	1.38	840	74%		
Applying peer group resource multiple (Chromex's attributable share)						65.8	23.62				2.79		

Source: Company data, Ocean Equities

Background info on AMCOL

AMCOL International Corp is a ~US\$350m market cap Company listed on the NYSE that operates 68 facilities in Asia, Australia, Europe and North America. Net sales were US\$884m in 2008 generating an EBIT of US\$62.8m across four business units (Minerals ~50%; Environmental ~34%; Oil Services ~14% and Transportation ~4%). AMCOL produces and markets a wide range of specialty mineral products used for industrial, environmental and consumer-related applications with its principal markets being the Americas (63%), EMRA (28%) and Asia Pacific (9%). AMCOL currently markets chrome sand to the metalcasting industry in the US (key end markets being iron and steel-based castings for automotive, rail, construction and farm equipment) and this transaction provides the opportunity for the Company to be an integrated supplier of chrome sand to steel foundries.

Key Events / Valuation Triggers

We expect the upcoming news flow to be dominated by: outlook for industry chrome/ferrochrome demand/price; finalisation of marketing and off-take agreements for the Stellite project; increased value add from beneficiation of internal and 3rd party ore; settlement of the current Samancor dispute over the Mecklenburg asset; and continued review of potential corporate acquisitions.

Risks

Whilst we are positive about the fundamental outlook for Chromex we acknowledge in the current market that appetite remains low for junior, industrial commodity mining companies. To this end while many commodities and equities may appear oversold on fundamentals and remain attractive investments on a longer term view we believe market sentiment will be the primary driver of performance in 2009. Near term macro/sector specific news flow is likely to remain challenging but given the limited liquidity in the Company's stock and the leverage Chromex provides to an improving chrome price and stainless steel market we believe the current valuation provides an attractive entry point for the medium/longer term investor.

The following are likely to be key risks facing the Company:

- **Commodity prices:** Chrome and ferrochrome prices are particularly volatile relatively to a number of other commodities which are often more heavily traded. Significant uncertainty remains for stainless steel demand and prices which we believe are the key driving factors for chrome prices. While Chromex enjoys quarterly contract prices and we are positive on the medium to longer term outlook for chrome/ferrochrome pricing we highlight that pricing volatility and further negatives to near term prices could feed through into Chromex's earnings and market sentiment for chrome/ferrochrome equities.
- **Exchange Rates:** Chromex will incur the majority of its costs in Rand but will have the majority of revenue derived in US\$. Any significant and sustained appreciation of the Rand against the US\$ could serve to materially increase the costs and thereby reduce returns.
- **South African Political risk:** While the current political climate in South Africa is stable there is, however, no assurance that future political and economic conditions in South Africa will not result in the Government of South Africa adopting different policies respecting foreign development and ownership of mineral resources. Any such changes in policy may result in changes in laws affecting, inter alia, the implementation of transfer and granting of mining rights/assets, energy prices, commodity export tariffs/bans, taxation, rates of exchange, environmental protection, labour relations, repatriation of income and return of capital, which may affect the Chromex's ability to develop its chromite assets.
- **Project Execution:** While Stellite is a relatively simple open casting mining project, with current operations enjoying shallow dipping reefs, the ramp up of any mining operation has a degree of execution risk.
- **Mecklenburg dispute:** In the current market Chromex would not be developing the Mecklenburg project regardless of the ongoing dispute between Samancor and the DME. However, we believe Mecklenburg has an attractive value and a negative ruling by the High Court would be a significant negative to Chromex's business model and share price.
- **Reduced barriers to entry:** The chrome/ferrochrome industries currently enjoy significant barriers to entry as the majority of supply continuing to be production controlled by a handful of significant scale integrated producers with structural barriers to entry within the South Africa market (largest global chrome reserves and production), political instability in Zimbabwe (2nd largest reserves), sovereignty risk in Kazakhstan (2nd largest global producer), and increasing exports tariffs in India (3rd largest global producer).
- **Black Empowerment Legislation:** The mining industry has been at the forefront of Black Economic Empowerment ("BEE") legislation with principles of ownership by historically disadvantaged South Africans. Whilst the philosophy of the Government is not to increase the targets set in such legislation, political changes may occur which could affect such ownership requirements in the future.
- **Unsolicited acquisition:** The potential scale of production and cash flows from Chromex's existing properties is significant, particularly for a junior stock with a market cap of £16.4m. Recently there have been a number of up stream acquisitions of producing chrome/ferrochrome assets by strategic investors. Chromex being acquired before the full value of its projects is reflected in its share price is another key risk.
- **Share price volatility:** Chromex is listed on the AIM market and has a very tight share register with ~51% of its issued shares not in public hands, often resulting in limited secondary market trading and potentially relatively large share price movements on little trading volume.

Commodity outlook/Valuation Triggers

Chrome is a key input for the stainless steel industry with ~90% of mined chrome ore consumed as ferrochrome, a stainless steel, corrosion resistant, alloying agent. It is not surprising then that chrome demand and pricing has recently collapsed, due to weak demand and de-stocking, particularly in China. The supply side response by chrome and ferrochrome producers has been swift and significant, greater than just about any other commodity. Recent commentary from a number of producers and trading houses is that there has been a resumption of interest from Chinese and South African chrome offtake consumers after a number of months on the side lines, supporting prices in the near term. The medium-longer term fundamentals for chrome are relatively favourable because, unlike nickel, ferrochrome can not be substituted in stainless steel production, and demand is likely to be supported by its relative cost advantage to nickel and a secular trend to ferritic stainless steel (containing chrome).

The emergence of a primary export market, driven by Asian demand for chrome products rather than ferrochrome, has changed the chrome market which is now at a higher level of profitability even at current depressed price levels. In our view chrome pricing and demand looks set to become further decoupled from ferrochrome in the near to medium term, driven by Chinese ferrochrome production capacity. Further fragmentation of regional growth rates and gains in market share are expected to see chrome's growth rate significantly outstrip that of stainless steel and South African sourced ferrochrome.

We believe there is a strong medium/longer term fundamental case for chrome: Demand growth from emerging markets, led by China, due to increased stainless steel and ferrochrome production; while Supply continues to be restricted with the majority of production controlled by a handful of significant scale integrated chrome/ferrochrome producers with structural barriers to entry within key markets. There are few pure play chrome producers in the market and AMCOL's recent acquisition of Chrome Corp's Ruigoek asset highlights industrial demand remains for even small scale producing assets. In our view chrome is a far more leveraged play to an improving stainless steel environment than ferrochrome and other stainless steel feed commodities.

Market outlook

The outlook for chrome remains robust in the medium to long term. In the medium term, stainless steel production is expected to increase from current low levels, supported by major government stimulus plans, which include significant investment in infrastructure. Industry bodies estimate that global stainless steel production decreased 4.4% y/y in 2008 (to 27.2mt) and expect a further fall of 3.3% to 26.3mt in 2009 and world stainless steel production is currently running at 40% capacity (CRU).

Recent commentary from a number of producers and trading houses is that there is been a resumption of interest from Chinese and South African chrome offtake consumers after a number of months on the side lines. Baosteel, Hebei, Wuhan, ArcelorMittal, Tata and other major steel manufacturers achieved ~30% production cuts in 4Q'08 to stem the oversupply of steel and falling prices. The World Steel Association recently reported steel production data for Jan'09 which saw global crude steel production increased by 4.5% compared with Dec'08 but was 24% below Jan'08, with China still managing to grow 2.4% yoy.

Indeed commentary from a number of industry sources indicates that steel related de-stocking in China may have run its course and tentative signs indicate an improving environment. However, of particular note is the supply sides reaction to the collapse in demand experienced in 4Q'08. Chrome and ferrochrome suppliers have been swift to respond and made significant production cuts, greater than just about any other commodity, with the over 70% of global ferrochrome capacity having been shut down since Oct'08 (refer to Exhibits 19 and 20). While industry data is not available in this level of detail for chrome given the integrated nature of the chrome/ferrochrome industry, we believe the supply response in the chrome market is of a similar magnitude.

Exhibit 19: ~73% of global ferrochrome capacity has been shut down since Oct'08 . . .

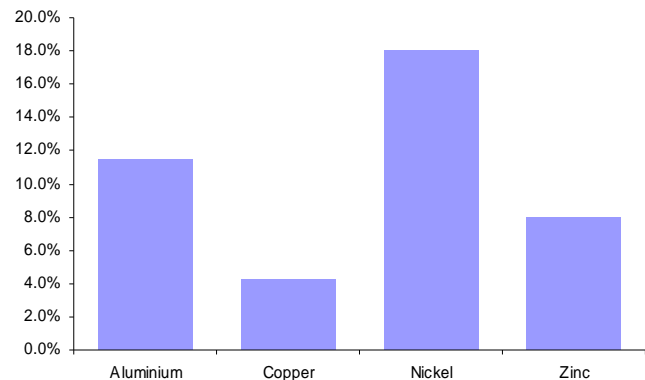
HC FeCr / Charge Chrome production by company/country

Company	Country	Capacity (kt)	Utilisation %	Pro-forma annual production (kt)
ASA Metals	South Africa	148	60%	89
Assmang	South Africa	241	30%	72
Hernic	South Africa	420	0%	0
IFM	South Africa	267	0%	0
Samancor	South Africa	980	0%	0
Xstrata & Merafe	South Africa	1,760	20%	352
Etikrom/Vargon	Sweden	136	50%	68
Etikrom	Turkey	87	40%	35
ENRC	Kazakhstan	1,100	58%	638
Serov	Russia	78	10%	8
Chelyabinsk	Russia	150	0%	0
Various	India	907	30%	272
Various	China	1,520	33%	502
Other		333	30%	100
Total		8,127	26%	2,135
World FeCr Production - 2007				7,766
Pro-forma reduction (annualised)				73%

Source: IFL estimates (Jan'09)

Exhibit 20: . . . and has been a significantly greater supply response relative to most other commodities

Globally announced production curtailments as % of 2009 production



Source: GSJBW, Company data, CRU (Feb'09)

Initial current estimates imply that the ferrochrome market should experience a deficit of 644kt in 2009, reducing inventory stocks from 22.1 to 8.1 weeks of consumption by year end (CRU and IFM Feb'09). As global demand recovers, led by stainless steel growth in emerging markets driven by the increase basic materials intensity, the decisions to defer or cancel capacity expansions, and curtail current production, are expected to lead to chrome and ferrochrome supply constraints and again place upward pressure on pricing. This trend is expected to be further supported by structural barriers to entry and limited primary sources of chrome being available in China.

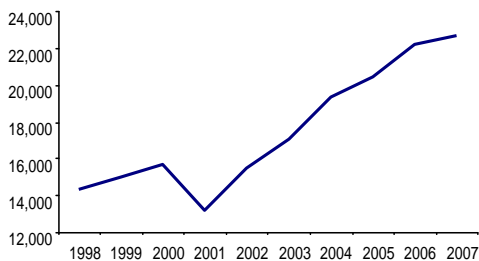
Changing market dynamics

The chrome ore market had seen a significant price increase in the 18 months prior to the top of the market in mid 2008, increasing >150%. The main factor contributing to this was the increase in stainless steel production and ferrochrome capacity in China, resulting in demand outstripping supply and the development of a primary export market for chrome ore for the first time. According to Xstrata and Merafe (the largest producer of chrome/ferrochrome globally), even before the correction in commodities prices there were no new ferrochrome expansions expected in South Africa in the next 3 years. Volume growth was then, and is even more so now, expected to be driven by the east, primarily China, India and Kazakhstan.

The emergence of China has led to a different structure in the chrome and ferrochrome markets and while end use demand for both products is ultimately the same (ie stainless steel, primarily driven by China) an important distinction must now be made as the outlook for chrome in the shorter to medium term looks far more favourable. Ferrochrome inventory is estimated to be in the order of 1.5mt (c. 20% of global production), and increased significantly during 2008 in China on fears of power cuts in South Africa may restrict supply and in the lead up to the Olympic games.

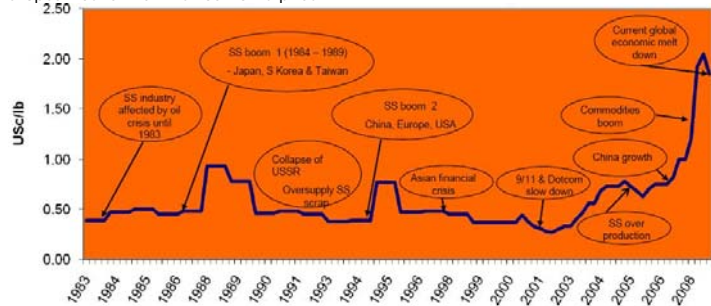
The Chinese now have significant ferrochrome capacity in their own right. However, the country does not have a significant domestic supply of chrome. It is obviously in the Chinese interest, from an economic and social perspective, to maintain a relatively high capacity utilisation of their own factories (supporting employment and social peace), by producing their own ferrochrome and importing chrome rather than utilising existing ferrochrome stockpiles. Recent commentary from IFM confirms that ferrochrome production in China has re-started (admittedly not in a "big way"), but this has resulted in increased demand and enquires for chrome. This is despite Chinese ferrochrome producers operating at a significantly higher cost than other global ferrochrome peers and having significant stockpiles of ferrochrome. While we highlight that the improvement in chrome demand is still at a fragile stage in our view it helps confirm the significantly different outlook for import demand for chrome relative to ferrochrome and supports our belief that chrome demand and pricing appears set to further decouple from ferrochrome in the near to medium term.

Exhibit 21: Increasing chrome consumption ('000t) . . .



Source: ENRC

Exhibit 22: . . . resulting in favourable pricing
European benchmark ferrochrome price



Source: Merafe (Oct'08)

Another secular change worth highlighting is the shift from Austenitic Stainless Steel (containing nickel) to Ferritic Steel (containing chrome), which should support demand for both chrome and ferrochrome. Ferritic steel enjoys a number of relative benefits (discussed further in the "Stainless Steel Overview" section of the **Appendix**), and the spike in nickel prices between 2005 and early 2006 contributed to increased ferrochrome demand/capacity. This trend is expected to continue driven by increased production from China and a relative cost advantage (even at the current nickel price). There are no economical substitutes for chromite ore in the production of ferrochrome, chromium chemicals, or chromite refractories. Currently, chromium-free substitutes either compromise product quality (ie the "stainless" properties which as corrosion, chemical resistance and/or strength of stainless), increase costs or both. Additionally, despite the recent pull back in nickel prices, chrome enjoys favourable cost advantages which should support the trend to higher quality stainless steel blends which contain higher chrome/lower nickel (refer Exhibit 43).

In our view chrome is a far more leveraged play to an improving stainless steel environment than ferrochrome, other stainless steel feed commodities and indeed global stainless steel production. We believe the growth in South African chrome exports will continue to significantly outstrip the expected ~6.8%pa growth rate in stainless steel in the medium-longer term due:

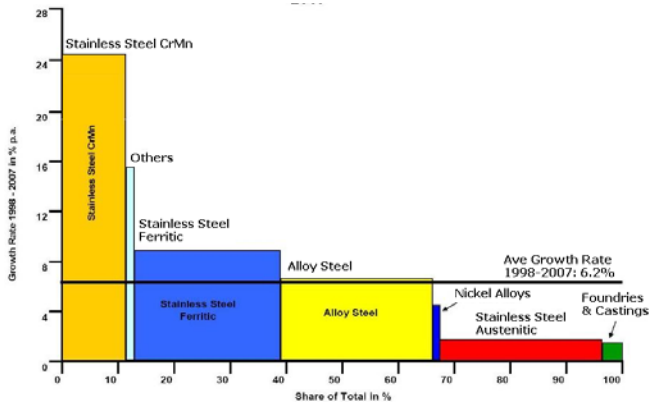
- **Chinese led recovery/longer term growth:** Our expectation is that a recovery in stainless steel demand is likely to be led by China, indeed the European, American and Russia's markets remain particularly weak, impacting the outlook for the global stainless steel producers. In the medium to longer term, as demonstrated by Exhibit 24, the forecast growth rate of ~6.8%pa in stainless steel demand is expected to be driven by strong growth in China. Growth in the stainless steel industry is likely to become ever more fragmented due to differing regional demand. China in the near, medium and longer term is expected to experience a significantly greater growth rate than that achieved globally. There are few means to gain direct exposure to pure Chinese stainless steel production but given South African producers supply ~40% of Chinese chrome imports, and the Chinese do not have a primary source of chrome, we believe Chromex's target market is well positioned to experience a growth rate far in excess of the global stainless steel market.
- **Chinese ferrochrome capacity:** The emergence of significant Chinese ferrochrome production capacity, which is now in excess of 1mtpa (~15% of global capacity or a third of the size of South African capacity), means that China will increasingly look to consume less foreign sourced ferrochrome relative to the preference of domestic supply. Therefore we expect South African chrome to be in higher demand than ferrochrome, particularly in the current market as the Chinese try to maintain the capacity utilisation of their domestic plants and benefit from the significant reduction in chrome prices (the principal reason for the higher cost of ferrochrome production in China relative to South Africa). Again there is expected to be increased fragmentation in the market but this time due to the supply side, due to where production capacity up the supply chain is located. This is despite both chrome and ferrochrome demand and pricing ultimately being driven by the same end market, ie stainless steel.
- **Market share gains:** Chrome and ferrochrome demand is expected to grow at a greater rate than stainless steel due to gains in market share from the shift from austenitic stainless steel (containing nickel) to ferritic steel (containing chrome).
 - ferritic stainless steel
 - Market Share gains:

The Appendix

Chrome is a stainless steel story

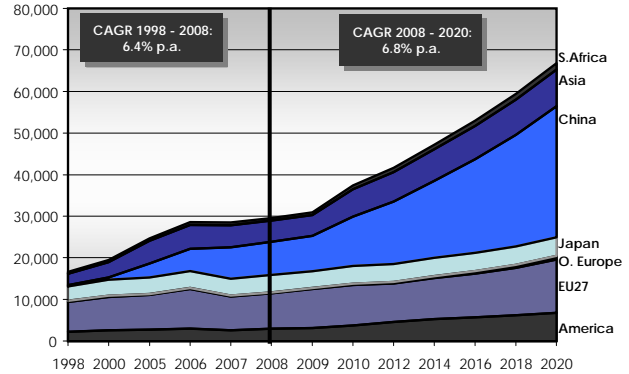
Chrome is a key input for the stainless steel industry with over 90% of mined chrome ore consumed in the manufacturing of ferrochrome, a stainless steel alloying agent. Stainless steel consumption is expected to be underpinned by the industrialisation and urbanisation of emerging markets, led by China which has emerged as the largest producer and consumer of steel, and stainless steel in the world. Chrome ore demand has grown at c.10% pa over the past 3 years and globally stainless steel melting production is expected to continue to grow at a healthy rate of ~6.8% pa in the medium to longer term (refer Exhibit 24).

Exhibit 23: Drivers of demand for Chrome
Growth of Chrome by First Use (1998-2007)



Source: Heinz H. Pariser (June 2008)

Exhibit 24: Global stainless steel demand is expected to be led by strong growth out of China
Stainless Steel Melting Production

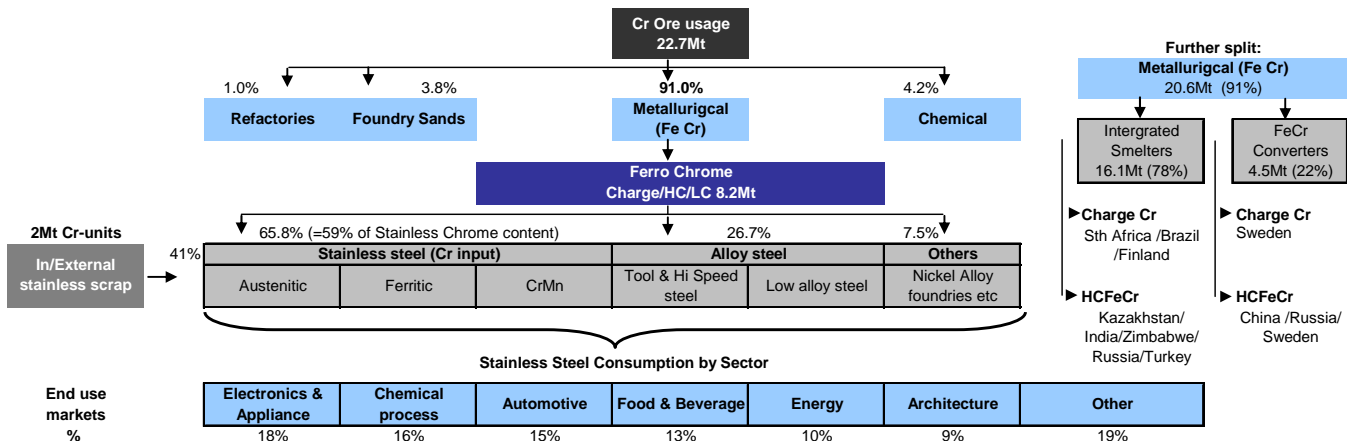


Source: Heinz H. Pariser (2008), ERNC (Sept'08)

Chromium is the most abundant of the Group VI family of metallic elements, comprising chromium, molybdenum and tungsten. At a concentration of nearly 400ppm in the earth's crust as various minerals, it is the 13th most common element. Many minerals contain chromium, although chromite (FeCr_2O_4) is the only commercial ore mineral. Chromite has several industrial applications, primarily based on its Cr:Fe content. High chromium ores (defined by having high Cr:Fe ratios) are used for producing ferrochrome for metallurgical applications such as stainless steel.

Demand for chrome, like nickel, is driven by downstream stainless steel growth. However, unlike nickel, there is no substitute for chrome in the stainless steel industry. The end markets for steels containing chrome are metal goods (electronics, automotive etc), construction, engineering, transportation and electrical goods (splints provide in Exhibit 25).

Exhibit 25: Summary chrome market material flow and end uses



Source: ENRC, MBR, Heinz H. Pariser

As highlighted above, 91% of chromite ore mined is consumed by ferrochrome producers and the balance is consumed for special uses such as superalloys, special steels and plating. High iron chromite is used for the production of low quality ferrochrome, foundry sands, chromium salts (used in the leather tanning industry as a pigment and in chromium plating) and refractory purposes (production of magnesite-chromite and chromite-magnesite bricks).

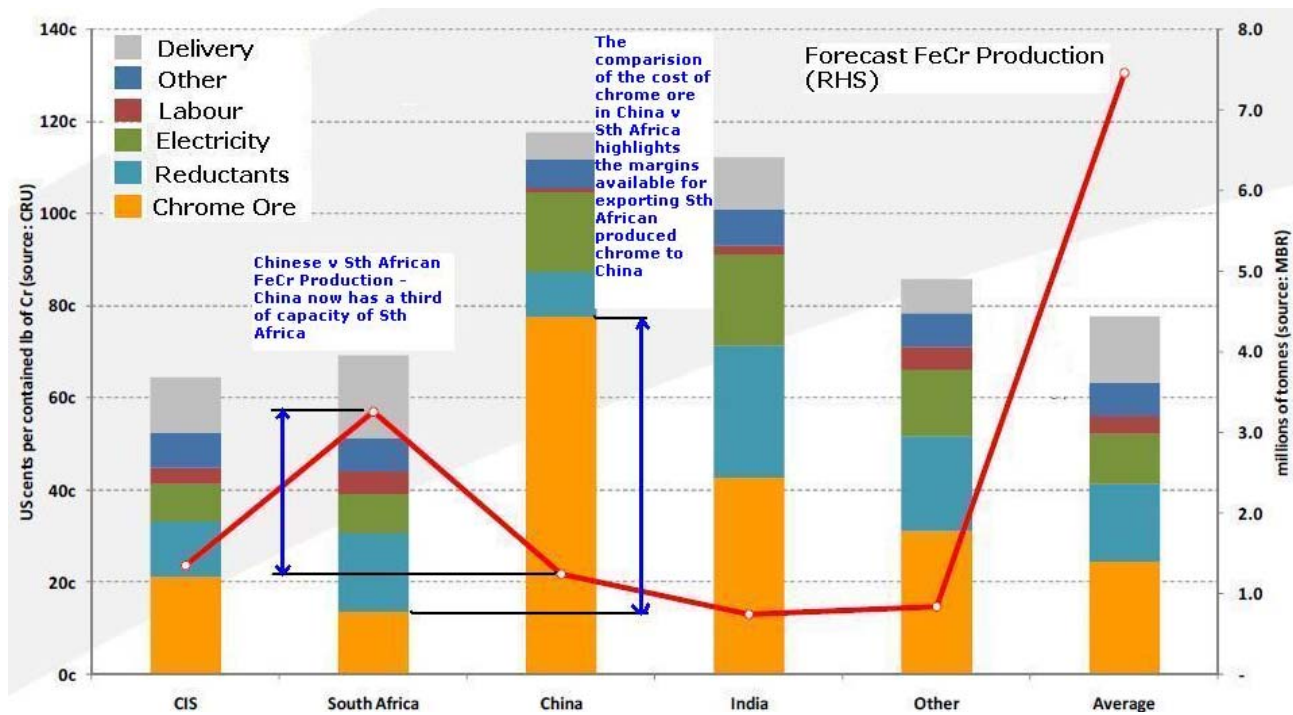
Ferrochrome is a corrosion-resistant alloy of chrome and has various grades including: "charge chrome" containing between 50-55% chrome; "low carbon" up to 60% chrome and "high carbon" up to 70%. Ferrochrome is generally produced by the pyrometallurgical reduction of chrome ore with carbon and/or silicon in high temperature electric arc furnaces. According to Xstrata Alloy's, a leading producer of ferrochrome, ~2.5t of chrome ore is consumed in order to produce ~1t of ferrochrome, while ~1t of ferrochrome is needed to produce ~4t of stainless steel.

Traditionally, pricing for chrome has been driven by ferrochrome demand but recently there has been an increasing emergence of a primary export market for chrome as a result of the emergence of China being a global force in the stainless steel market. China has recently significantly increased its stainless steel smelting capacity and final product demand. The high price of imported ferrochrome, and the Chinese stainless steel mills looking to reduce raw material costs and mitigate potential supply disruptions due to power shortages in South Africa, has resulted in a significant increase in Chinese ferrochrome smelting capacity (41% increase in 2007 yoy and then a further growth of 23% in 2008 yoy - refer Exhibit 32). This is despite China's relative production cost disadvantage. As Exhibit 26 highlights the primary reason for this disadvantage is the cost of chrome ore, which is ~5x higher in China than South Africa (~2.5x higher India than South Africa). China does not have a primary source of chrome and is therefore dependant on imports, primarily sourced from South Africa, for the supply of chrome. As discussed in the **Changing market dynamics** section we believe this provides a more favourable outlook for chrome relative to ferrochrome in the near to medium term.

Over 40% of global charge/HC ferrochrome production is sourced from South Africa and the dominance of the major integrated chrome/ferrochrome producers is a large reason for the rising price of ferrochrome. The increased input costs of ferrochrome production (particularly in South Africa), the strengthening South African Rand, increased tightness in supply of stainless steel scrap, increasing power costs and other input costs (such as reductants and chrome ore) has resulted in significant cost inflation. The production of ferrochrome is a fairly energy intensive process (eg smelting chrome is ~3.5MWh/t; with electricity estimated to be ~15% of the total cost of production) and ferrochrome prices look to be further supported by China's and India's relative energy cost disadvantage and power shortages in South Africa until at least 2012.

These trends have changed the dynamics for the chrome/ferrochrome market. For the Chinese this has resulted in increased visibility in the pricing of chrome and ferrochrome, and further integration up the supply chain. For the very few suppliers of chrome in the export market it has created a transparent pricing mechanism for the first time in what historically was a price taker industry. As can be seen from the below Exhibit 26 the difference between chrome ore costs in South Africa and China basically reflects transportation costs and profits to chrome producers (a point we briefly touched on earlier).

Exhibit 26: China and India operate at a relative cost disadvantage, primarily due to the difference in the cost of chrome
Ferrochrome cost of production, by country – 2008



Source: CRU, IFM (Feb'09)

Snapshot of Supply and Demand

We believe there is a strong medium/longer term fundamental case for chrome: Demand growth from emerging markets, led by China, due to increased stainless steel and ferrochrome production; while Supply continues to be restricted with the majority of production controlled by a handful of significant scale integrated chrome/ferrochrome producers (that plan expansion to coincide with internal ferrochrome growth), further supported by structural barriers to entry within the South African market (largest global chrome reserves and production), political instability in Zimbabwe (2nd largest reserves), sovereignty risk in Kazakhstan (2nd largest global producer), increasing exports tariffs in India (3rd largest global chrome producer which is ramping up its own stainless steel capacity), and delays in new development due to the loss-making nature of the chrome/ferrochrome/steel industry in the past and present.

Exhibit 27: Chromite reserves and production dominated by South Africa. . .

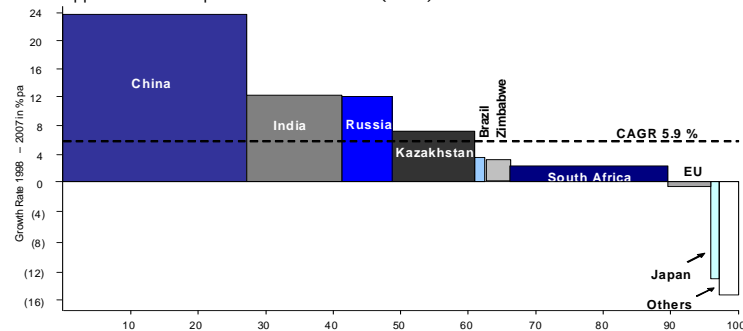
World Chromite Reserves and Production (2007)

Country	Ore Reserve			2007 Ore Output		
	mt	%	rank	mt	%	rank
South Africa	5,500	72.4%	1	9.6	43.4%	1
Zimbabwe	930	12.2%	2	0.5	2.3%	8
Kazakhstan	320	4.2%	4	3.8	17.2%	2
Finland	120	1.6%	5	0.6	2.7%	6
India	67	0.9%	6	2.8	12.7%	3
Turkey	20	0.3%	7	1.5	6.8%	5
Brazil	17	0.2%	8	0.6	2.7%	6
Other	626	8.2%	3	2.7	12.2%	4
Total	7,600			22.1		

Source: Heinz Pariser (June 2008)

Exhibit 28: . . . while consumption growth has been driven by China, India & Russia

World apparent consumption of chromite ore (2007)



Source: ENRC

Exhibit 29: South African chrome producers have been the major beneficiary of China's growth, recently at the expense of the Indians

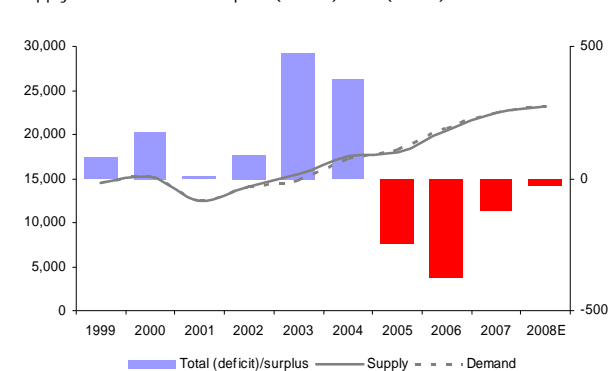
Chrome (China imports)

	2006		2007		2008 (1-8)		% Chg 07/06	YTD 08/07	% Share 2006	YTD 08/07
	000ts	US\$/t	000ts	US\$/t	000ts	US\$/t				
USA	66	122	0	na	0	na	na	na	2%	0%
Brazil	99	161	106	194	61	194	7%	-9%	2%	1%
Turkey	741	172	1,083	274	770	274	46%	-1%	17%	16%
Albania	83	152	230	252	94	252	177%	-48%	2%	2%
Kazakhstan	144	157	198	333	166	333	38%	-27%	3%	3%
India	1,340	191	984	346	424	346	-27%	-43%	31%	9%
Vietnam	73	121	104	142	43	142	42%	-37%	2%	1%
Philippines	85	136	221	152	276	152	160%	88%	2%	6%
Iran	245	176	245	176	245	176	0%	0%	6%	5%
Oman	71	136	338	155	585	155	376%	174%	2%	12%
Pakistan	197	173	295	296	304	296	50%	49%	5%	6%
Sudan	29	222	15	338	25	338	-48%	82%	1%	1%
Madagascar	43	166	53	362	76	362	23%	143%	1%	2%
South Africa	868	157	1,964	215	1,818	215	126%	53%	20%	37%
Australia	224	166	220	221	32	221	-2%	-79%	5%	1%
Others	17	162	92	264	75	264	na	0%	0%	2%
Total	4,325	171	6,091	255	4,901	255	41%	19%	100%	100%

Source: Heinz Pariser (Oct'08), Merafe (Oct'08)

Exhibit 30: Chrome ore supply vs. demand (1999-2008E)

Supply/ Demand LHS : Surplus/(Deficit) RHS ('000 t)



Source: International Chromium Development Association (ICDA), USGS, Credit Suisse & Ocean Equities estimates

Supply in more detail. . . .

Since 1998 the global steel industry has expanded at 6.4% CAGR and over this period has seen a significant change in its regional landscape. Asian market share has increased from ~40% to ~55% of global steel usage, with China's share alone doubling, largely at the expense of the USA and Europe. We believe this has resulted in a fundamental change in the economics and structure of a number of key upstream steel commodities which have struggled to increase supply such as coal, iron ore, magnesium and chromite. Despite the apparent abundant resources of chrome relative to the current global production capacity, the location, supply chain characteristics of the industry, historical profitability of the chrome/ferrochrome/steel industries (or lack thereof), volatility in pricing/demand and internal political/infrastructure status of where these deposits are situated has led to an inability of supply to expand in line with demand since 2005 until 4Q'08 (when demand fell off a cliff).

Chrome is a relatively consolidated industry with a few market leaders situated in South Africa and Kazakhstan producing the majority of the world's supply. To illustrate this point the largest ferro-chrome producer in the world is the Xstrata/Merafe Chrome Venture, accounting for ~20% of production (FeCr capacity of 1.96mt pa - refer to Exhibit 31). Due to the historic structure and profitability of the industry these market leaders are integrated producers, with chrome expansion programmes generally designed for internal consumption only. To illustrate this point it is estimated that the top 3 producers supply 47% of the world's ferrochrome production with upstream chrome expansion determined by internal ferrochrome production capacity. According to International Ferro Metals chrome ore represents c.33% of total ferrochrome production costs in the 3Q'08 (total cost ~US\$65c/lb versus the current FeCr price ~\$1.85/lb), with other major costs being reductants (c.31%) and electricity (c.14%).

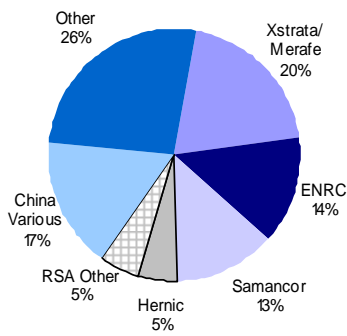
As Exhibit 27 illustrates South Africa contains >70% of global chromite reserves, sources >40% of global production and provides ~40% of China's chrome imports (Exhibit 29). South African ore benefits from a high proportion of "free" high priority iron units/high silicon content, reducing the need for charging/costs for steel mills. However, it is worth highlighting that South African chrome ore is generally a lower quality than the deposits in Zimbabwe. Zimbabwe hosts ~12% of global reserves and provides minimal global production due to the current economic, social and infrastructure environment. According to Xstrata/Merafe, even before the correction in commodities prices there were no new ferrochrome expansions expected in South Africa in the next 3 years (impacted by the cost/availability of power and the high power demands of ferrochrome production) with new supply/smelting capacity growth expected to come from the east, primarily China, India and Kazakhstan.

Despite China increasing its ferrochrome production capacity (it is estimated that there are now one hundred Chinese companies that produce >1mt of ferrochrome) there is a lack of domestic supply of chrome. There lies an obvious incentive for the traditional producers of ferrochrome to limit exports of chrome to the Chinese, thus maintaining control over pricing/supply; however exports from India, Kazakhstan, and to a lesser degree South Africa, continue to take advantage of a premium price for exported chrome. As previously discussed the cost of chrome ore to ferrochrome producers is ~5x and ~2.5x higher in China and India respectively than South Africa.

Historically there were few barriers to entry to the chrome market but now a number of regional obstacles exist. In South Africa, the largest producer of chrome, government mining regulations/approvals, dominant players within this market place commanding the majority of economic resources, the legal system, power restrictions and costs, limited access to capital markets at the junior end of the market, volatility in the exchange rate and commodity prices, and potential political risks (eg specifically changes to export tariffs/changes in mining regulations) all act as barriers to new entrants. In Zimbabwe, which holds significant high grade resources of chrome but provides minimal production, the economic and political environment coupled with current export policies and regional infrastructure have restricted project development. In India, the 3rd largest global chrome producer, the domestic government and steel industries desire to curb exports (through increasing tariffs – the impact is very evident in India's market share of exports to China in Exhibit 29), regional infrastructure and quality of deposits has limited chrome exports into the global markets. Furthermore, significant power shortages and/or energy price increases in ferrochrome producing regions (including: China, South Africa, Kazakhstan and India), continue to limit the ability to add incremental ferrochrome supply. These limitations coupled with: the historic loss making nature of the industry (and current volatility in pricing and demand); the dominance of a few significant scale producers; and until recently no export market or transparency in pricing/profitability, has led to limited supply of new capital to the chrome industry.

Given the current diverging outlook for chrome relative to ferrochrome and cost of power we would expect countries which are long chromite reserves to increase exports of chrome ore to supply regions which are short chrome/ferrochrome but long relatively cheap energy and steel/ferrochrome production capacity, such as the Middle East, Russia (and other CIS states) and Asia. We expect to see the fundamentals for the chrome and ferrochrome industries continue to evolve and for pricing and supply to increasingly become more transparent, to the benefit of the pure play chrome producers.

Exhibit 31: Consolidated industry structure with top 3 producers supplying 47% of global ferrochrome
Global Ferrochrome Market Share



Source: Merafe (Nov'08)

Exhibit 32: Ferrochrome growth is expected to come from Kazakhstan, China and India, with no new expansion in South Africa for the next 3 years

Production of Charge/HC ferrochrome									
	('000ts)				% Chg			% Share	
	2006	2007	2008	2009	07/06	08/07	09/08	2006	2008
Charge									
South Africa	2,912	3,549	3,570	3,650	21.9%	0.6%	2.2%	46.6%	43.8%
Brazil	141	164	165	170	16.3%	0.6%	3.0%	2.3%	2.0%
Finland	243	242	240	241	-0.4%	-0.8%	0.4%	3.9%	2.9%
Sweden	88	80	86	110	-9.1%	7.5%	27.9%	1.4%	1.1%
Subtotal	3,384	4,035	4,061	4,171	19.2%	0.6%	2.7%	54.2%	49.8%
HCFeCr									
China	870	1,232	1,515	1,520	41.6%	23.0%	0.3%	13.9%	18.6%
India	634	928	1,100	1,200	46.4%	18.5%	9.1%	10.2%	13.5%
Kazakhstan ¹	873	952	970	970	9.0%	1.9%	0.0%	14.0%	11.9%
Russia ¹	204	185	274	300	-9.3%	48.1%	9.5%	3.3%	3.4%
Sweden	49	44	40	60	-10.2%	-9.1%	50.0%	0.8%	0.5%
Zimbabwe	214	201	175	175	-6.1%	-12.9%	0.0%	3.4%	2.1%
Iran	17	17	17	17	0.0%	0.0%	0.0%	0.3%	0.2%
Vietnam	0	0	0	120	na	na	na	0.0%	0.0%
Subtotal	2,861	3,559	4,091	4,362	24.4%	14.9%	6.6%	45.8%	50.2%
Total Material Weight	6,245	7,594	8,152	8,533	21.6%	7.3%	4.7%	100.0%	
Cr Content	3,558	4,298	4,776	5,026	20.8%	11.1%	5.2%		
Cr Content	57.0%	56.6%	58.6%	58.9%					

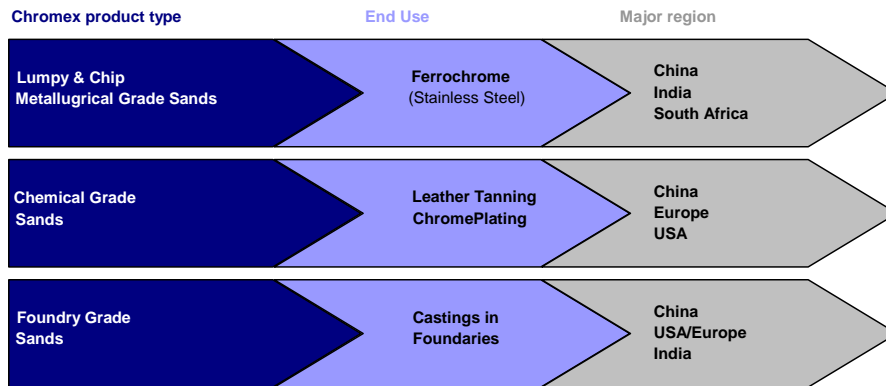
¹ Saleable

Source: Heinz Pariser (Oct'08), Merafe (Oct'08)

... Demand in more detail

The key driver in demand, pricing and sentiment towards the chrome sector in our view is the Chinese stainless steel industry. In our view a recovery in stainless steel demand is likely to be led by China. The stainless steel industry consumes ~91% of mined chrome ore which is used in the manufacturing of ferrochrome, and China is the largest market in the stainless steel industry and expected to underpin growth for the sector (refer Exhibit 24). Other end markets for chrome ore include chemical ~4%, foundry sands ~4% and refactories ~1%.

Exhibit 33: Summary of the key end uses of Chromex's product types



Source: Chromex, Ocean Equities

Stainless steel consumption is expected to be underpinned by the industrialisation and urbanisation emerging markets, led by China which has emerged as the largest producer and consumer of steel in the world. Further industrialisation and urbanisation of other BRIC countries is expected to support global chrome and ferrochrome demand as is the increasing development of the Middle East.

Exhibit 34: Chinese growth is expected to underpin demand

Melting production 2007 & 2009 - Regional

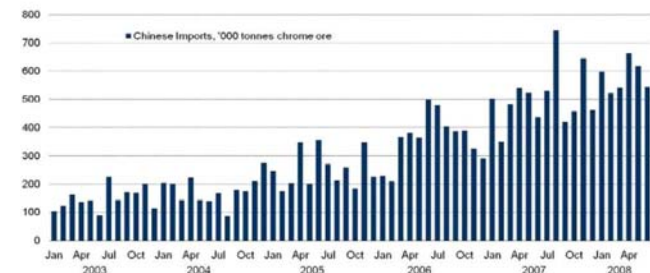
	in '000's			% Chg			% Share	
	2007	2008	2009	07/06	08/07	09/08	2007	2009
USA	2,171	2,375	2,450	-11.7%	9.4%	3.2%	8%	7%
EU	8,109	8,584	9,585	-15.1%	5.9%	11.7%	28%	29%
Japan	4,017	4,300	4,265	-1.7%	7.0%	-0.8%	14%	13%
China	7,610	8,265	9,800	41.9%	8.6%	18.6%	27%	29%
S Korea/Taiwan/India	5,307	5,424	5,885	-6.8%	2.2%	8.5%	19%	18%
Others ¹	1,323	1,478	1,560	-9.3%	11.7%	5.5%	5%	5%
Total	28,537	30,426	33,545	-0.3%	6.6%	10.3%	100%	100%

¹ Incl. Brazil, Canada, Russia, Ukraine, Sth Africa

Source: Merafe (Sept'08)

Exhibit 35: ... Whilst this data is now a bit dated it illustrates the significant build up of chrome stockpiles from 2003 and ferrochrome capacity increased

Chinese chrome ore imports continue to rise into 2008



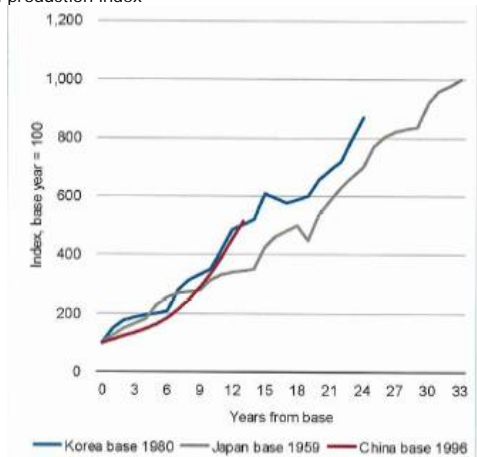
Source: Heinz H. Pariser (Jun'08)

Chinese Stainless Steel Outlook

In the near to medium term Chinese stainless steel production is expected to increase from current low levels, supported by major government stimulus plans which include significant investment in infrastructure. Japan and Korea provide a clear roadmap to China's potential industrialisation, except China is of a much larger scale with a population of ~1.3b people. The end markets for steels containing chrome are metal goods (electronics, automotive etc), construction, engineering, transportation and electrical goods (splints provide in Exhibit 25). The industrialisation and urbanisation of China, and other emerging markets (such as India), provides a robust medium/longer term outlook for infrastructure spending and stainless steel demand which should translate into more the demand for upstream inputs such as chrome.

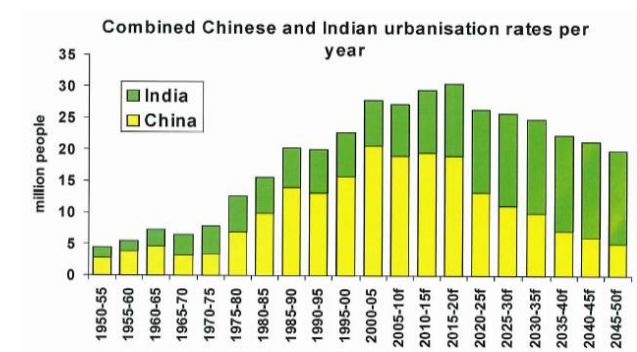
Exhibit 36: Further promising long-term growth prospects for China. .

Industrial production index



Source: The Economist (2008)

Exhibit 37: . . . supported by the urbanisation of millions of people

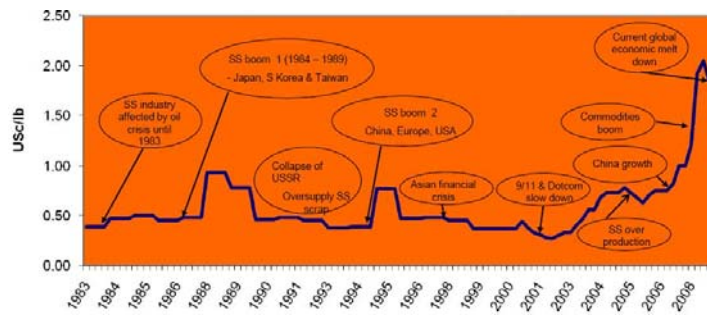


Source: United Nations, McKinsey, Macquarie Research (Sept'08)

Pricing Environment

Traditionally pricing for chrome has been driven by ferrochrome demand and based on annual pricing. Recently there has been an increasing emergence of a primary export market for chrome which has resulted in quarterly, semi-annual and annual pricing. The emergence of the Chinese import industry drove the rise in ferrochrome prices through 2006 and 2007. Through 2008 increasing concerns were raised over the threat of power shortages in South Africa, which, coupled with buying ahead of the Olympic games, resulted in significantly increased stockpiles in China (and drove a spike in prices). Given that business effectively shut down in China surrounding the Olympic games demand and prices dropped off before the increasing stress of the Western financial crisis started to have a meaningful impact on Chinese domestic stainless steel demand and exports.

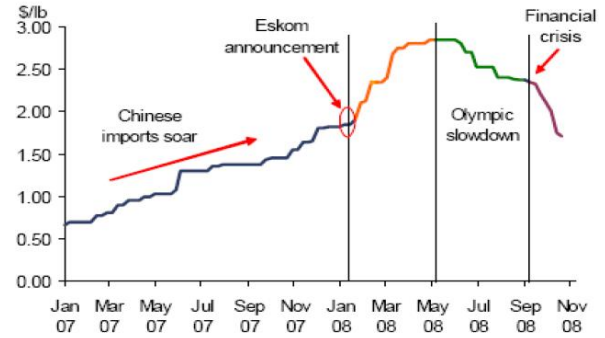
Exhibit 38: Trends in historical ferrochrome pricing . . .
European benchmark ferrochrome price



Source: Merafe (Oct'08)

Exhibit 39: . . . and more recent drivers

High Carbon ferrochrome spot prices

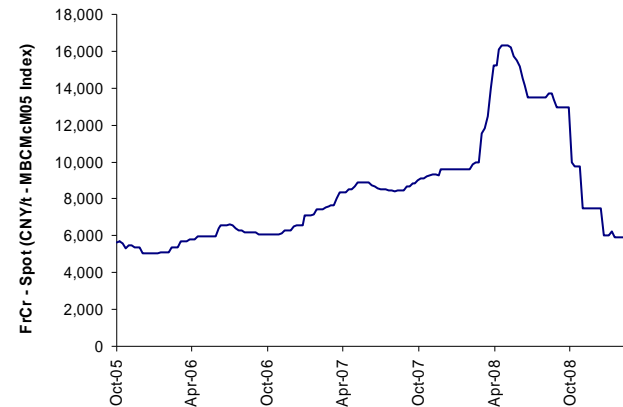


Source: Merafe (Oct'08)

Not surprisingly, the dynamics of chrome supply out of South Africa has significantly changed with the emergence of a viable export market providing a transparent pricing mechanism for the first time. A China FOB index is now available which provides a spot pricing market and enables South African chrome producers to determine a local benchmark price (ie China spot CFR adjusted for grade/quality, less freight and logistic costs). Power shortages in South Africa at least until 2012 look set to provide a supportive environment for chrome and ferrochrome which are also supported by the expectation that growth in ferrochrome capacity will come from relatively high cost countries such as China and India.

Exhibit 40: A spot pricing mechanism for ferrochrome has been in existence for some time

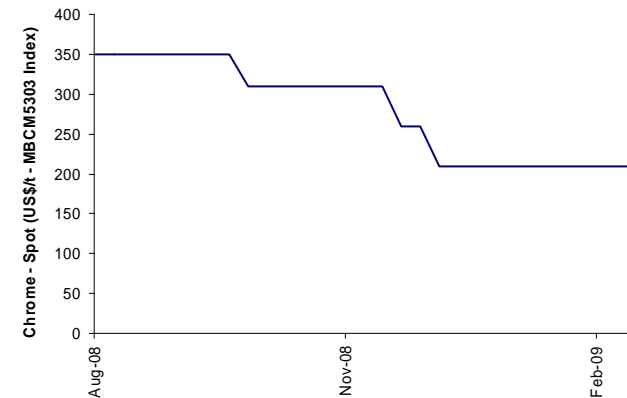
FrCr Spot 6-8% C, 60% Cr delivered



Source: Bloomberg

Exhibit 41: A China FOB index is now available which provides a spot pricing mechanism for chrome for the first time

Chrome FOB South African friable lumpy 35-40% US\$/t



Source: Bloomberg

Stainless Steel Overview

To be 'stainless' steel must contain at least 11-12% chrome but some steels contain up to 30%. One of the best known stainless steels is the Series 304 steel, which is often referred to as 18/8 stainless, where 18 is the percentage of chromium and 8 is the nickel percentage. There are some standard compositions for the different grades of stainless steel and designation numbers which are now universally used by the producers and consumers. These are:

- **Series 200 steels:** CrMn where manganese replaces some of the nickel in the 300 Series
- **Series 300 steels:** Austenitic nickel-containing grades (>Ni,<Cr)
- **Series 400 steels:** Ferritic and Martensitic grades with no or very little nickel (>Cr)
- **Series 600 steels:** precipitation hardening grades

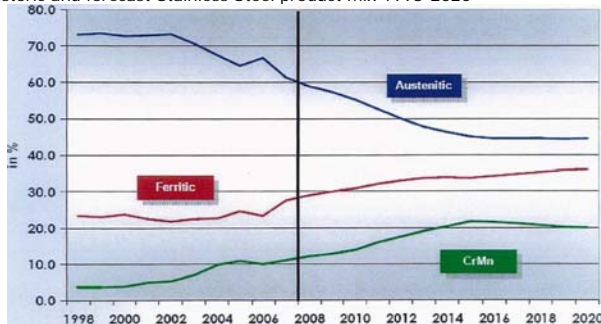
The extraordinary rise in nickel prices, having continued from 2006 up to 1H'08, had a significant impact on the price of stainless steel products. In order to cope with the higher nickel price the stainless steel industry developed capacity to produce chrome-based stainless steel products. In Japan chrome-based stainless steel, Ferritic, reached 45.3% share in 2008 increasingly significantly from the historic level of 35-37%.

As can be seen from Exhibit 42 there has been a trend towards higher chrome content products and these trends are expected to continue driven by the favourable pricing of chrome relative to nickel and the favourable characteristics of chrome/ferrochromium stainless steel. As previously discussed there are no economical substitutes for chromite ore in the production of ferrochromium, chromium chemicals or chromite refractories at present. Currently, chromium-free substitutes either compromise product quality (ie the "stainless" properties such as corrosion, chemical resistance, strength of stainless), increase costs or both.

In our view the risk of new stainless "recipes" evolving is balanced towards a more favourable product mix for chrome. Furthermore, it is worth highlighting that the expected chrome mix from increased Chinese capacity should be positive given China's traditional use of "nickel in pig iron" as feedstock in its stainless steel production, rather than stainless scrap, which means that their ramp up of stainless steel production will be relatively more chrome intensive than what a comparable western mill may be.

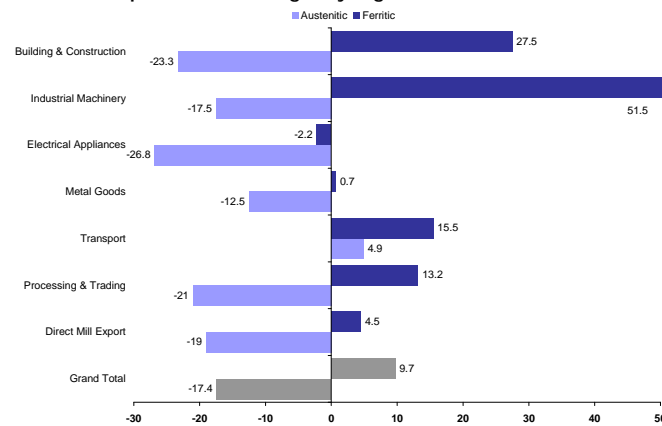
Exhibit 42: . . . Favourable secular shift to higher ferritic (chrome/ferrochrome) stainless steel

Historic and forecast Stainless Steel product mix 1998-2020



Source: ENRC

Exhibit 44: Japan demand changes by segment



Source: Merafe (Oct'08)

Exhibit 43: . . . Chrome still enjoys a relative cost advantage, which in a tight pricing environment will accelerate the secular shift to ferritic stainless steel – update pricing of table

Illustration of est. cost/t of chrome v nickel in various grades of stainless steel

	Grade	Composition	Weight %	lbs/t steel	Spot (US\$/lb)	Cost (US\$/t)
Austenitics	304	Cr	18.0%	396.9	0.79	313.6
		Ni	8.0%	176.4	4.30	758.5
		Mo	0.0%	0.0	-	0.0
	Ratio	Ni/Cr	0.44x	0.44x	5.44x	2.42x
	316	Cr	18.0%	396.9	0.79	313.6
		Ni	12.0%	264.6	4.30	1,137.8
Mo		2.0%	44.1	-	0.0	
Ratio	Ni/Cr	0.67x	0.67x	5.44x	3.63x	
Duplex	2201	Cr	21.5%	474.1	0.79	374.5
		Ni	1.5%	33.1	4.30	142.3
		Mo	0.3%	6.6	-	0.0
	Ratio	Ni/Cr	0.07x	0.07x	5.44x	0.38x
	2205	Cr	23.0%	507.2	0.79	400.6
		Ni	4.8%	105.8	4.30	455.1
Mo		0.3%	6.6	-	0.0	
Ratio	Ni/Cr	0.21x	0.21x	5.44x	1.14x	

Source: ENRC, Bloomberg

Exhibit 45: Substitution potential between Chrome and Nickel (2007)

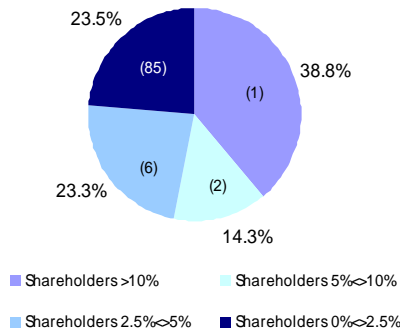
	Chrome in %	Chrome substitution potential	Nickel in %	Nickel substitution potential
Stainless Steel	64.8%		59.2%	
Austenitic	28.6%	Irreplaceable	56.0%	Downgrading, Duplex, Rising Scrap input
Ferritic	24.4%	Irreplaceable	0.0%	
CrMn	11.8%	Irreplaceable	3.2%	Mn replaces Ni
Alloy steel	29.8%	Limited substitution	7.4%	Limited substitution
Ni-Base Alloys	0.9%	Irreplaceable	11.9%	Wide range of substitutes
Cu-Base Alloys	0.0%		1.4%	
Plating	0.0%		11.3%	High substitution risk, Decorative usage
Foundry	3.4%	Limited substitution	3.1%	Stainless scrap
Others	1.1%		5.7%	
Total	100.0%		100.0%	
Units (mt)	4.5		1.3	

Source: ENRC

Shareholder analysis

Only ~49% of Chromex's issued shares are in public hands (ie not held by directors, management and shareholders with greater than or equal to 10% of the issued share capital). The reason for this is because the Company has enjoyed a tight and supportive shareholder register with limited promotion of the Chromex story and knowledge of the Company in the market place.

Exhibit 46: 9 shareholders own 76.5% of the Company, which the largest 3 shareholders accounting for ~53%



Source: Chromex

Exhibit 47: Previous Capital raisings

Date	Event	Ord. Shares	Options	Warrants
	Pre-IPO	52,000,000		
07 Sep 06	IPO	20 p /sh	4,350,000	407,500
12 Sep 06	Placing	20 p /sh	90,000	90,000
14 Jun 07	Placing - Ord	25 p /sh	7,000,000	
14 Jun 07	Placing - Warrant	35 p /sh		3,500,000
21 Jun 07	Placing - Ord	25 p /sh	140,000	
21 Jun 07	Placing - Warrant	35 p /sh		70,000
01 May 08	Mgmt options	25 p /sh		2,175,000
24 Apr 08	Mkhombi Stellite transaction	6,024,101		
23 May 08	Placing - Ord	40 p /sh	11,250,000	
17 Jun 08	Cancellation of mgmt contract	2,077,072		
19-Aug	Mgmt options	45 p /sh		2,450,000
May-Sept'08	Warrants excercised	20 p /sh	1,316,719	-1316719
	Cancellation Mgmt options		-2,450,000	
Total		84,247,892	2,582,500	7,693,281

Source: Chromex

South African Mining Law and Black Economic Empowerment

The MPRD Act commenced on 1 May 2004. Prior to the introduction of the MPRD Act, rights to minerals were held either privately or by the State. Apart from bringing into law an internationally accepted principle that the State is entitled to exercise sovereignty over mineral rights, the MPRD Act also sought to ensure that "Historically Disadvantaged" South Africans ("HDSA") benefit in the exploitation of such resources.

In South Africa, prospecting and mining rights are limited real rights in respect of the minerals and the land concerned, which entitle the holder not only to prospect or mine but to carry out all other activities incidental to prospecting and mining. These rights are often referred as "New Order Rights" which include the mining and/or prospecting rights granted under the MPRD Act:

- **Prospecting Right:** This right is granted for up to 5 years and may be renewed once for a period not exceeding 3 years.
- **Mining Right:** Following an application to the Department of Minerals and Energy ("DME") this right will be granted by the DME if the application complies with the requirements of the MPRD Act for a maximum of 30 years but is renewable for an indefinite number of further periods, each of which may not exceed 30 years.

One of the primary requirements in respect of New Order Rights is that the applicant must comply with the rules dealing with HDSA's. These deal with equity interests in the applicant and also the conduct of the operations. So far as equity ownership is concerned, the MPRD Act provides that 15% of the total equity and attributable units of production must vest in the HDSA partner within five years and 26% in ten years from the MPRD Act taking effect (ie 15% by 1 May'09 and 26% by 1 May'14).

As can be seen from Exhibit 2, Chromex is already in compliance with the maximum HDSA requirement under the MPRD Act now, and the Company doesn't intend there to be any dilution in future that could compromise compliance with the full requirements.

Umnotho weSizwe is a BEE investment holding company with interests in the mining and mineral sector. Umnotho is entitled to the normal benefits arising out of a minority shareholding including, inter alia, board representation, minority protections and dividends, save that Umnotho may not dispose of its shares for a period of five years unless such disposal is approved by the other shareholders, which disposal is permitted only to an HDSA.

Umnotho weSizwe has board representation through its CEO Vusi Nkosi who is a Chromex Non Executive Director – refer to the earlier **Board of Directors** section of the report for further details on Vusi Nkosi's background.

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