

## REVIEW OF OPERATIONS

### FOR THE QUARTER ENDED 30<sup>th</sup> SEPTEMBER 2011

During the quarter ending 30<sup>th</sup> September 2011 the company, Elemental Minerals Ltd. (ASX, TSX: ELM), continued with the Phase 2 field programme and the Pre-Feasibility Study (“PFS”) on the Sintoukola potash project in the Republic of Congo, West Africa (“ROC”), Figure 1.

#### ACTIVITIES

##### **Potash – ROC**

- The Phase 2 exploration field programme comprising some 47 drill holes (13,295m) for resource infill, resource expansion, geotechnical and hydro-geological purposes, as well as a 2D seismic survey continued.
- Completion of trade off studies and definition of the project configuration for the PFS was achieved.
- Completion of scoping social and ROC government regulator engagements was finalised.
- Upgrading of the field camp to accommodate 90 personnel.

##### **Corporate Activity**

The company successfully completed an initial public offering (the “IPO”) on the Toronto Stock Exchange of 42,470,000 ordinary shares at a price of C\$1.26 per share (approximately A\$1.25 per share) for gross proceeds of C\$53,512,200. The IPO was carried out by a syndicate of underwriters co-led by BMO Capital Markets and Renaissance Capital, and including Stifel Nicolaus Canada Inc., National Bank Financial Inc., RBC Capital Markets, and CIBC (the “Underwriters”)

In addition, the Company granted the Underwriters an option to purchase up to an additional number of ordinary shares equal to 15% of the number of ordinary shares sold under the IPO at any time during the 30 day period immediately following the closing of the IPO. The Underwriters subsequently exercised this over-allotment option in full, and subscribed for an additional 6,370,500 ordinary shares at C\$1.26 per share, for gross proceeds of C\$8,026,830. The total number of ordinary shares in issue following the exercise of the over-allotment option is 222,226,108.

#### PFS and Phase 2 Exploration Programme

The company continued with the pre-feasibility phase of its definitive feasibility study (“DFS”) for the Sintoukola potash project this quarter, including the Phase 2 field programme, in preparation for exploration and other drilling work in support of the DFS. This programme is expected to deliver a code compliant Mineral Resource estimate in the appropriate resource category for conversion into Mineral Reserves and also to provide hydro-geological, metallurgical and geotechnical data in support of the mine design.

The drilling component of the Phase 2 programme (Fig. 2) consists of a total of 47 drill holes for 13,295m, of which 6 drill holes are designed for the gathering of structural, geotechnical and hydro-geological information, 13 drill holes for resource extension drilling, 10 drill holes for resource infill and 18 hydro-geological drill holes. The drilling programme may evolve as results are forthcoming. At the time of reporting, the first structural investigation and geotechnical hole was in progress. -. By the end of the quarter six hydro-geological holes had been completed (731m) and the seventh drill hole is in progress.

In parallel to the Phase 2 drilling programme, 101km of the planned 160 line kilometres of high definition 2D seismic data had been acquired at the end of the quarter over the Kola deposit. This data provides high resolution of subsurface geometries and allows detailed ore body modelling, which is expected to provide the required level of confidence in the mine planning phase of the DFS (Fig 3).

### PFS Trade off studies

A total of eleven trade-off studies were completed by the study team consisting of Elemental staff, SRK Consulting, AMEC Americas, EGIS International and Ercosplan, focusing the Company on the way forward to project and operational completion, as well as delivering operational and capital cost benefits. The combined results were evaluated taking into consideration technical, economic, social and environmental aspects and supported the following project definition for the remainder of the study:

- Conventional underground mechanised mining
- 2.0Mtpa muriate of potash production capacity
- Road system for material transport with dedicated haul road and a separate light vehicle road
- High tonnage road train hauling system
- Jetty trans-loading facility near Tchiboula 36km from the mine site
- Process plant located at the coast adjacent to the ship loading jetty
- Brine disposal at the sea
- National grid power supply and gas off-take for drying
- Single status camp adjacent to the plant at the coast
- Phased granular capacity reaching 100% granular product capability.

The ongoing PFS will continue to examine further project optimisation opportunities, including an alternative power supply that utilises dedicated gas-fired power generation, which is expected to take advantage of the abundance of natural gas that is currently a waste product of the oil industry in the immediate vicinity and also the option of phasing in rail transport.

There are a number of benefits arising from the selected project configuration including:

- A material transport distance of 36km from the mine to the ship loading facility. This is a reduction of 59km compared to the Preliminary Economic Assessment contained in the company's Technical Report (as defined below), which provides a very significant operating cost benefit that can be attributed to the reduced haul distance and the operational efficiency of high tonnage road trains.
- Increased production rates offer both capital and operating cost benefits that further enhance the project economics
- Utilisation of a dedicated haul road offers significantly lower health, safety, environmental and operational risk as well as minimising the social impact as the route is largely remote from populated areas.
- Locating the ship trans-loading facility at Tchiboula, 36 km from the mine site, offers very significant economic benefits attributable primarily to enhanced logistics, but also provides the opportunity to develop a dedicated facility away from Pointe Noire, which is likely to become increasingly congested over the coming years.
- Locating the plant at the coast adjacent the ship loader simplifies operational and logistics processes including water supply, brine disposal, final product handling, stockpiling facilities and gas supply. The location is also better suited to accommodate potential future developments from other exploration target areas within the Sintoukola license.
- Social and environmental impacts, particularly in relation to the nearby Conkouati-Douli National Park, are significantly reduced and become more manageable by locating the plant and employee facilities at the coastal site.

The metallurgical test work program was completed by the Saskatchewan Research Council, industry recognized leaders in potash process testing, under supervision of AMEC Americas. The test work was conducted on a 100kg representative sylvinitic sample. The results are very encouraging and it is management's belief that these results will translate into significant capital and operational cost advantages during the current phase of design.

Mineralogical analysis showed that the composite sample was composed of 38% sylvite (24.2%  $K_2O$ ) confirming the high grade nature of the deposit, with an insoluble content (identified as mostly anhydrite) of less than 1%. The sample can be categorised as coarsely intergrown sylvinitic.

The main conclusions from this initial work are:

- An effective and simple conventional process flow sheet has been indicated as required to achieve high recoveries and grades.
- The high grade quality of the Sintoukola feed material with low insoluble content may only require a simple de-sliming stage with minimum losses.

- Fast flotation kinetics suggests a simple and cost effective flow-sheet.
- Initial bench scale rougher / regrind / scavenger flotation achieved recoveries up to 96.5% with the scavenger flotation tails containing less than 1.5% KCl. One stage of cleaner flotation upgraded the rougher concentrate to 95.9% KCl grade.
- Locked cycle testing produced above average results with high recoveries (93.0% to 94.8%) and high concentrate grades (93.9% to 95.9%). Flotation concentrate grades produced are very close to final product grade suggesting that little or no concentrate leaching may be required.
- Optimisation of the metallurgical flow sheet is underway.

### **Iron – Western Australia**

No further field activities were completed on the Forrestania Project in Western Australia during the quarter. Following a review of the project and after considering options for divestment the Company decided to surrender the tenement to focus on the Sintoukola Potash Project.

### **Competent Person Statement**

Information in this report that relates to Exploration Results or Mineral Resources is based on information compiled by Dr Simon Dorling and Jeff Elliott, of CSA Global Pty Ltd, the company's geological consultants. Dr Simon Dorling and Mr Jeff Elliott are members of the Australian Institute of Geoscientists (MAIG) and have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (the JORC Code). Dr Simon Dorling and Mr Jeff Elliott are also Qualified Persons for the purposes of Canadian National Instrument 43-101 (NI 43-101) and they consent to the inclusion in this report of the Information, in the form and context in which it appears.

Information in this report that relates to the economic evaluation has been prepared by Mr Nick Michael and Dr. Neal Rigby of SRK (US) Inc, the company's lead consultants. Dr. Neal Rigby is a Chartered Engineer and Member of the Institute of Materials Minerals and Mining. Dr. Neal Rigby has given his approval and consent to the inclusion in this report of the Information, in the form and context in which it appears. Dr. Rigby has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (the JORC Code). Dr. Rigby is a "qualified person" as that term is defined under NI 43-101.

Further information respecting Elemental's Sintoukola Project is contained in a technical report entitled "NI 43-101 Technical Report, Sintoukola Potash Project,

Republic of Congo” prepared by Dr. Neal Rigby of SRK Consulting (U.S.), Inc. and Messrs. Simon Dorling, Jeff Elliott, Andrew Scogings and Peter Davies of CSA Global Pty Ltd. for the Company dated August 1, 2011 with an effective date of June 10, 2011 (the “Technical Report”). The Technical Report can be accessed on the Company’s profile on SEDAR.

**Forward-Looking Statements:**

This review of operations contains statements that are "forward-looking". Generally, the words "expect," "potential", "intend," "estimate," "will" and similar expressions identify forward-looking statements. By their very nature, forward-looking statements are subject to known and unknown risks and uncertainties that may cause our actual results, performance or achievements, to differ materially from those expressed or implied in any of our forward-looking statements, which are not guarantees of future performance. Statements in this review of operations regarding the company's business or proposed business, which are not historical facts, are "forward looking" statements that involve risks and uncertainties, such as resource estimates and statements that describe the company's future plans, objectives or goals, including words to the effect that the company or management expects a stated condition or result to occur. Since forward-looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Actual results in each case could differ materially from those currently anticipated in such statements.

Investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date they are made.

Figure 1: Location of Sintoukola Potash License



Figure 2: Kola Phase 2 Target

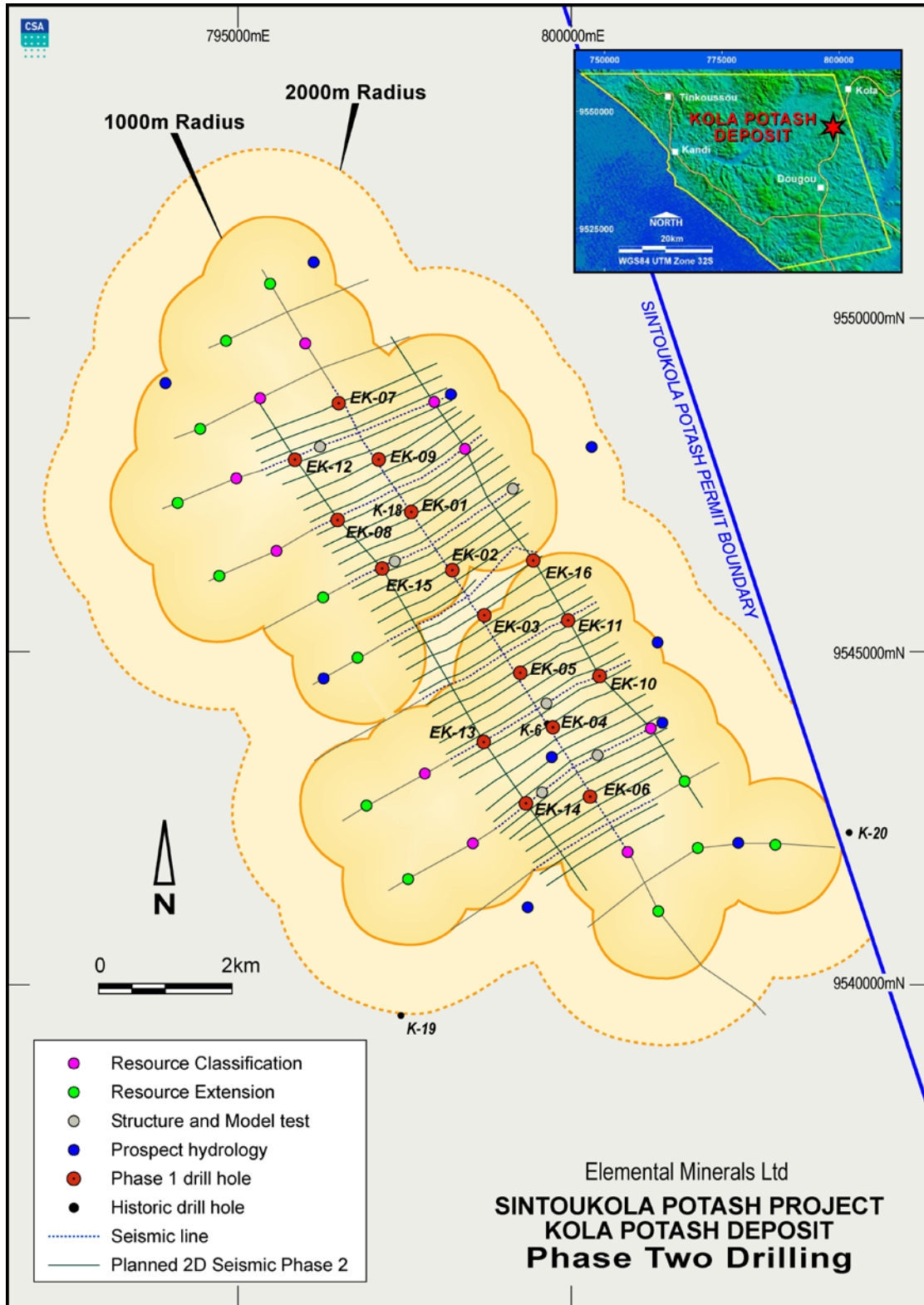
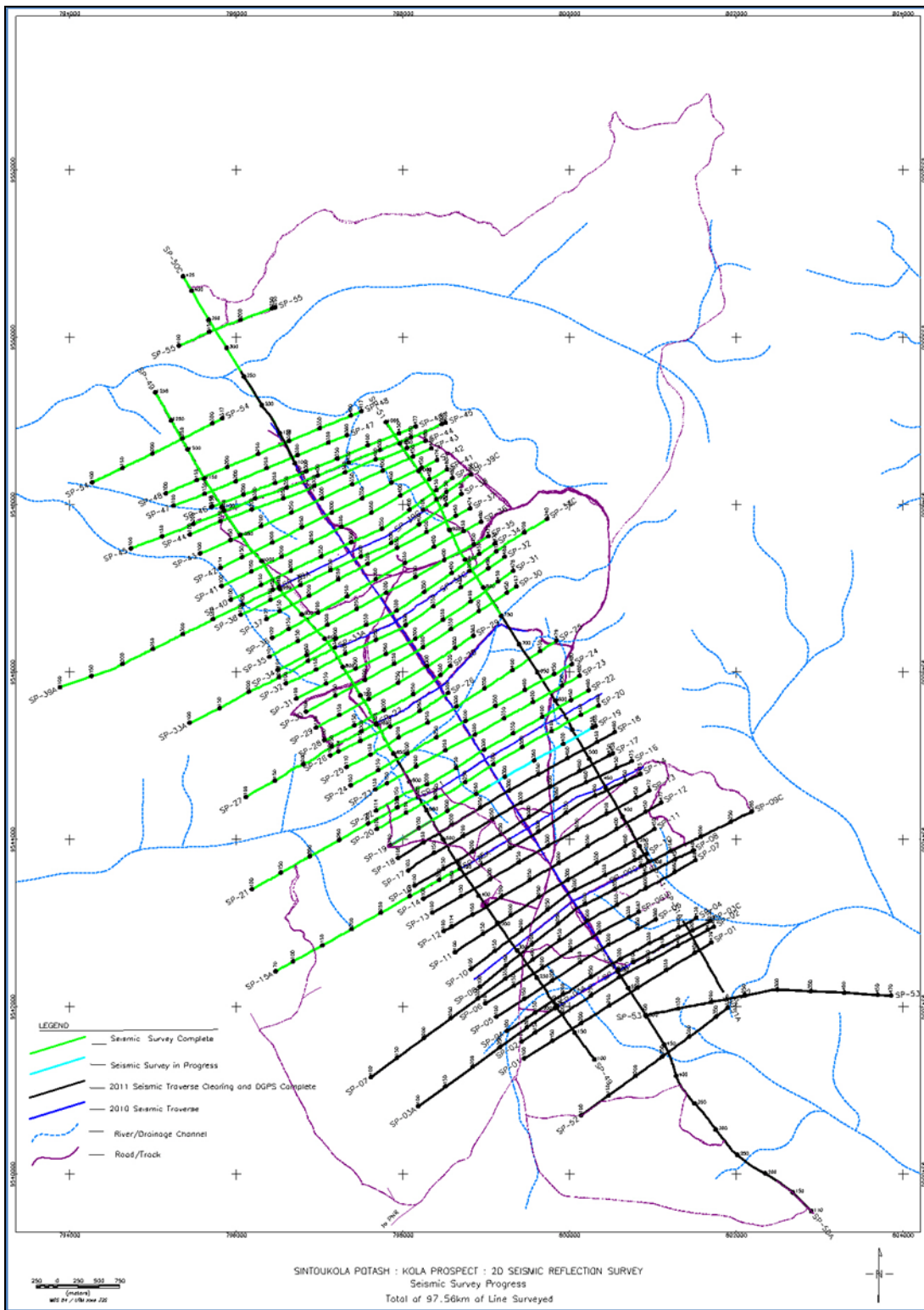


Figure 3: Kola Phase 2 Seismic Survey



For further information in respect of the Company's activities, please contact:

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# Appendix 5B

## Mining exploration entity quarterly report

Name of entity

ELEMENTAL MINERALS LIMITED

ABN

31 108 066 422

Quarter ended ("current quarter")

30 September 2011

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (3 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration and evaluation (b) development (c) production (d) administration	- - - (813)	- - - (813)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	283	283
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other – GST paid to be recouped	56	56
<b>Net Operating Cash Flows</b>	<b>(474)</b>	<b>(474)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchase or renewal of: (a) exploration and evaluation (b) equity investments (c) other fixed assets	(6,994) - -	(6,994) - -
1.9 Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets	- - -	- - -
1.10 Loans to other entities	-	-
1.11 Loans from other entities	-	-
1.12 Other	-	-
<b>Net investing cash flows</b>	<b>(6,994)</b>	<b>(6,994)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(7,468)</b>	<b>(7,468)</b>

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(7,468)	(7,468)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	60,198	60,198
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – share issue expenses	(4,671)	(4,671)
	<b>Net financing cash flows</b>	<b>55,527</b>	<b>55,527</b>
	<b>Net increase (decrease) in cash held</b>	<b>48,059</b>	<b>48,059</b>
1.20	Cash at beginning of quarter/year to date	5,589	5,589
1.21	Exchange rate adjustments to item 1.20	(53)	(53)
1.22	<b>Cash at end of quarter</b>	<b>53,595</b>	<b>53,595</b>

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	175
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

All payments to Directors and associates are on normal commercial terms.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A.

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A.

### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	6,370
4.2 Development	7,547
4.3 Production	-
4.4 Administration	610
<b>Total</b>	<b>14,527</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	12,965	1,872
5.2 Deposits at call	40,630	3,717
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>53,595</b>	<b>5,589</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	EL63/1022	Surrendered	100%	0%

**Appendix 5B**  
**Mining exploration entity quarterly report**

6.2	Interests in mining tenements acquired or increased	-	-	-
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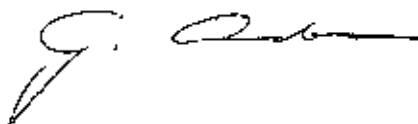
**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (cents)	Amount paid up per security (cents)
7.1	-	-	-	-
7.2	-	-	-	-
7.3	222,361,109	222,361,109	-	Fully Paid
7.4	48,840,500 2,053,758	48,840,500 2,053,758	CAD\$1.26 AUD\$0.20	Fully Paid Fully Paid
7.5	-	-	-	-
7.6	-	-	-	-
7.7			<i>Exercise price</i>	<i>Expiry date</i>
	18,658,244	18,658,244	<i>AUD\$0.20</i>	<i>31/01/2012</i>
	2,500,000	-	<i>AUD\$0.20</i>	<i>31/01/2012</i>
	300,000	-	<i>AUD\$0.46</i>	<i>20/12/2012</i>
	4,500,000	-	<i>AUD\$1.07</i>	<i>16/02/2012</i>
	5,250,000	-	<i>AUD\$1.07</i>	<i>19/05/2015</i>
	1,953,620	-	<i>CAD\$1.26</i>	<i>16/08/2013</i>
7.8	1,953,620	-	<i>CAD\$1.26</i>	<i>16/08/2013</i>
7.9	2,053,758	2,053,758	<i>AUD\$0.20</i>	<i>31/01/2012</i>
7.10	-	-		
7.11	-	-		
7.12	-	-		

## Compliance statement

- 1 This statement has been prepared under accounting policies, which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here: Company Secretary

Date: 27 October 2011

Print name: GRAHAM ANDERSON

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities.** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.