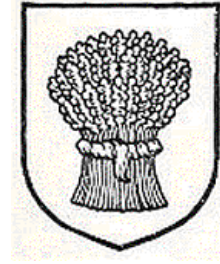


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Hallgarten & Company

Think Piece

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Mining Lifecycle - REE

Winner's circle or the Glue Factory

The REE Mining Lifecycle

Winner's Circle or Glue Factory

- + The traditional model of mining life cycle is applicable to the REE space as well with the caveat that the price action for the disparate group is somewhat anomalous
- + The upcoming Molycorp IPO will throw light back onto the sector and moreover bring some major institutions to look at the space where previously there has been nothing of size to "chew on"
- + The group shall shortly go from being theoretical to being one with two or more actual producers giving some benchmarks on earnings and margins and thus lifting it out of the "warm and fuzzy" school of comparative analysis.
- + As some majors advance to the right in the lifecycle "fresh meat" lurks, entering on the left, to give some of the laggard explorers a wake-up call.
- ✘ The lifecycle is a rather cheery one that leads onwards and upward, but if only this was true. Sudden death, backwards regressions and falls from grace are the unseen snakes in this game of mineral snakes and ladders.
- ✘ The lifecycle model does not account for those companies that deliberately or unwillingly end up perpetually in the same part of the lifecycle. They are not ants congealed in amber they are like riders of an exercise bike, constantly pedaling but never going anywhere.

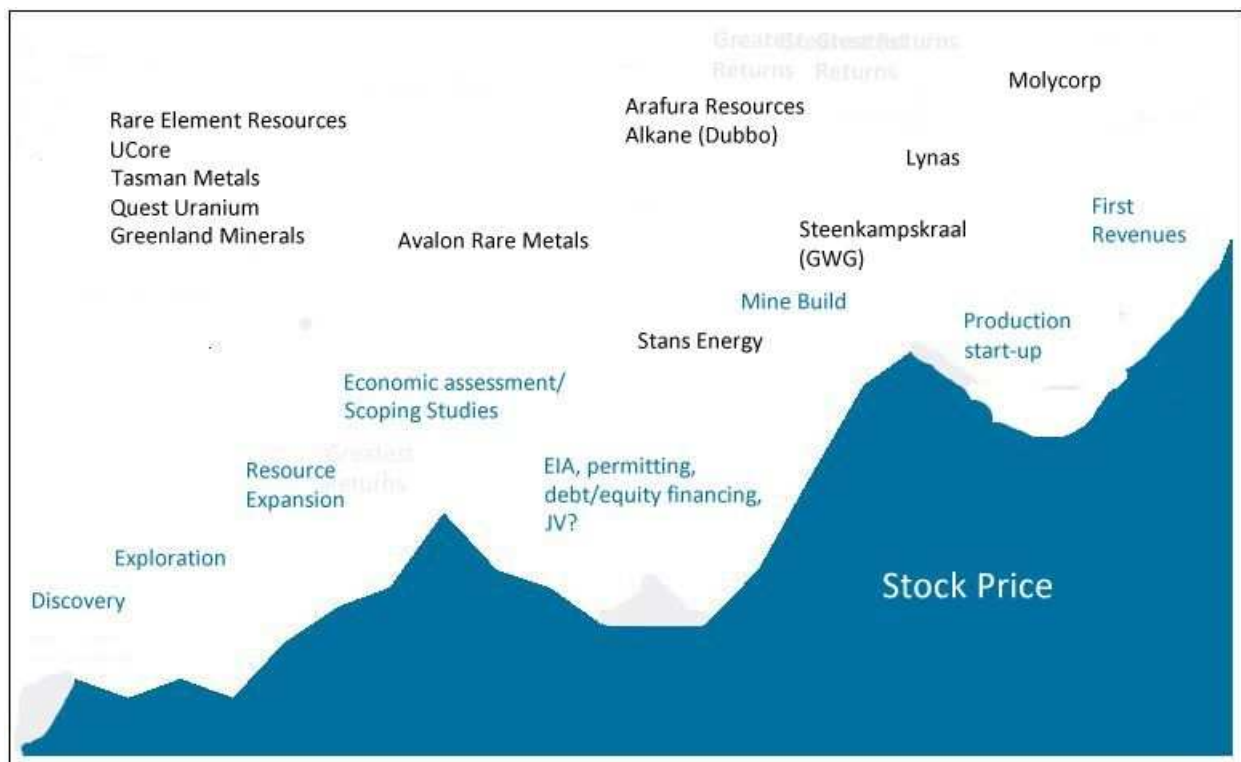
More than a Trifecta

At the risk of over-using our horse race analogy in the lithium and REE spaces, it could be said that the field is crowded near the Starting Post and very much thinner near the Finish Line. We thought it might be useful in light of the upcoming Molycorp IPO and the focus that it will throw onto the REE players to take our mining lifecycles chart and array the players across the field. The lifecycles chart we debuted with a focus on lithium plays a couple of months back in a think piece on the subject. We felt it was useful to visualize where certain players were not just in their progress (or not) towards production but also where they were *vis-a-vis* their peers in the space. As was apparent market capitalization seemingly has no relation to progress towards production or quality of assets. The lifecycle chart as a price indicator failed when there was insufficient recognition in the market of the progress that some names had made or the overestimation of the progress of others with superior IR efforts.

The Molycorp IPO with initial indications of a potential market capitalization of \$1bn to \$1.5 bn shows that the rewards shall go, probably disproportionately, to the race's winner. The consolation prize will be a kicker to valuations across the space. It might be said though that Lynas has already snatched a trophy having attained an AUD\$1bn market capitalization already because it was within spitting distance of production. Molycorp though could already be said to be in production though mining is not its current activity. It is exploiting stockpiled ore and putting that through its processing plants. The mining is scheduled to resume shortly after the IPO after a break of nearly 20 years.

To continue with the racing analogy the field has had one scratching (Pele Mountain) that seems to have realized that its deep uranium/REE deposit at Elliot Lake in Ontario was not really ever “in the race”.

Meanwhile some late additions to the starting roundup are names we missed on the first go around, namely Alkane with its Dubbo project and UCore (UCU.v) with its very interesting Bokan Mountain asset on Prince of Wales Island in Alaska. Alkane had slipped under our radar due to it being well-disguised as a Zirconium/Hafnium deposit. The TREO grades are not stunning but if the main elements of the mine mix get it to production then it could very well be putting out REE before many of the pure plays. UCore was largely overlooked because it was long thought of as a moribund uranium junior with all the marketing deadweight that implies. However, their deposit of REE, which they stress the “heavy-side” of, appears not only accessible and viable, but also is side by side the uranium rather than intermixed. The veracity of the latter claim though awaits further work.



Two other names that remain intriguing to us but are not even near the course for the current race are LeoMinex with its exposure to Malawi (which is a country where Lynas, we might mention, controls the chief historical asset) and Alturas Minerals, a Peruvian gold junior that has meaningful REE appearances. The latter represents the first figuring of a Latin American REE deposit.

This should be no surprise considering that Brazil was the world’s leading producer of REE for 70 years before Molycorp stole the crown in the 1960s. Brazil is still a small producer with all the output in the deathlike (and stultifying) grip of a division of the National Nuclear Authority (Indústrias Nucleares do Brasil).

Conclusion

We suspect that our chart will not go down so well in the quarters of those that are not advanced on the exploration-to-production continuum. In light of the relative newness of the sub-sector being early-stage is not a crime. However, the market caps of some players may have got ahead of themselves while some others may still be unrecognized for their state of being relatively advanced (Great Western being a case in point). This raises the possibility of some M&A action to level the playing field and remove these inconsistencies.

Unlike the lithium space though, the race is not one in which a few will finish and the rest are destined for the “glue factory”. There is more than enough space for the current field of REE wannabes to all be winners. With virtually none of the new mines likely to supply more than 5% of world supply, then seven new mines would only take less than half the current market and even less of what is likely to be an expanded market due to rising demand in the hybrid auto and wind turbine markets. The REE space is wide open for taking back from the Chinese. We might even go so far as to take the oil industry concept of speak of **Peak Rare Earths**, at least as far as China is concerned. That which has happened to South Africa in gold may indeed be the fate of the Chinese over the next decade. Everyone can be a winner, but “fakers” will remain on the far left side of our lifecycle chart for a long time to come.

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