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# HALLGARTEN & COMPANY

**Think Piece**

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# Mining Lifecycle - REE

## Rerunning the Horse Race

# The REE Mining Lifecycle

## Rerunning the Horse Race

+ The traditional model of mining life cycle is a applicable to the REE space though moving at a pace that makes progress almost imperceptible
+ It is definite that at least three companies will be producers by 2013
+ 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, in the REE case though the waiting room is exceptionally overcrowded
- ✘ The looming onset of strong production flows of light REEs has sent prices of Lanthanum and Cerium tumbling, ironically endangering the prospects of wannabes at the exploration end of the lifecycle rather than producers at the higher echelons
- ✘ The lifecycle model 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 like riders on an exercise bike, constantly pedaling but never going anywhere.

**Recap**

Our first REE Lifecycles note in 2010 leaned heavily upon allusions to horses with the fate for the slow on their feet being a fast dispatch to the glue factory. Little did we know that what we called a crowded field then of 10 starters would proliferate tenfold. It went from being the Kentucky Derby to something akin to a gypsy horse fair in the North of England (and without as much pedigree…).

The most amusing thing is that the group was so small that we made the comment "There is more than enough space for the current field of REE wannabes to all be winners". Little did we know that the TSX-V (whose unofficial motto is "Nothing Exceeds Like Excess") would mass-clone mediocre REE stories on a truly industrial scale.

To return to our equine analogy, many of the current field of "horses" didn't hear the starting horn and are milling about, while a hardy few (most of which, we must say, were in the initial note we wrote) have shot off along the track and cannot be seen for the dust. By the race is run the non-starters will be loaded up and sent to the TSX-V recycling plant for redisposition in some other sector *du jour*. This is the mining industry's equivalent of the glue factory.

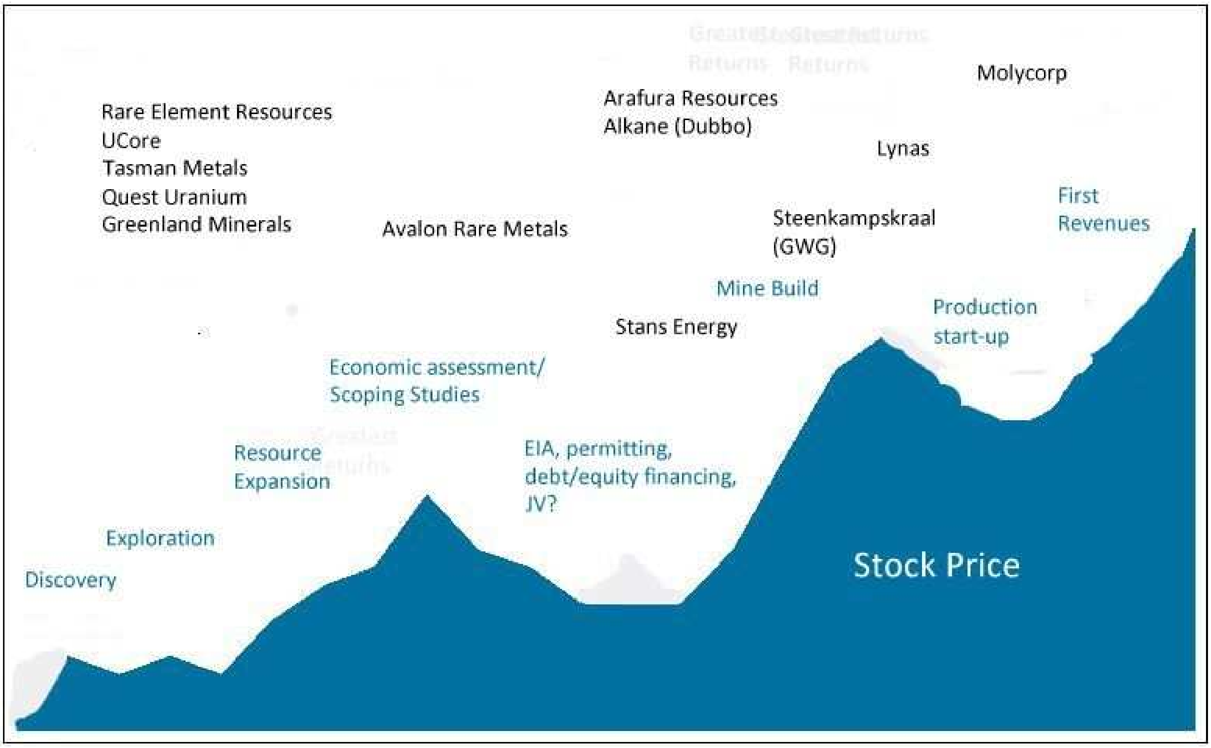
Not surprisingly time has shown that some of the starters of early 2010 are scarcely more advanced than they were then. The "faker" factor has come into play here with those that merely talk (and yet were seemingly first movers) still standing with the doomed also-rans. No need to name names here as the attached "lifecycle" chart makes clear who is off to a static start in the REE Stakes.

**Some Special Mentions**

There are too many non-contenders to “honour” each by name, however, special mention was made of Pele Mountain in our first note. This company has, amusingly, flipped and flopped around like a fish on the dock. At the time we said “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””. It headed off to the siren sounds of uranium when that space started to rally and then went back to REE when the Fukushima disaster transpired. Now to mash-up the barnyard/dock/racetrack analogy even further the company (and investors) can’t work out if it is “fish or fowl”.

Likewise Commerce Resources, that spent years cultivating the hard road of a Tantalum explorer, found it had a few REE prospects in the dross of its exploration portfolio and immediately switched focus. At that point we ditched it from the Model Mining Portfolio for its apostasy. Since then it has tried to exit REE but selling off some of these assets. Another one lured by siren-songs.

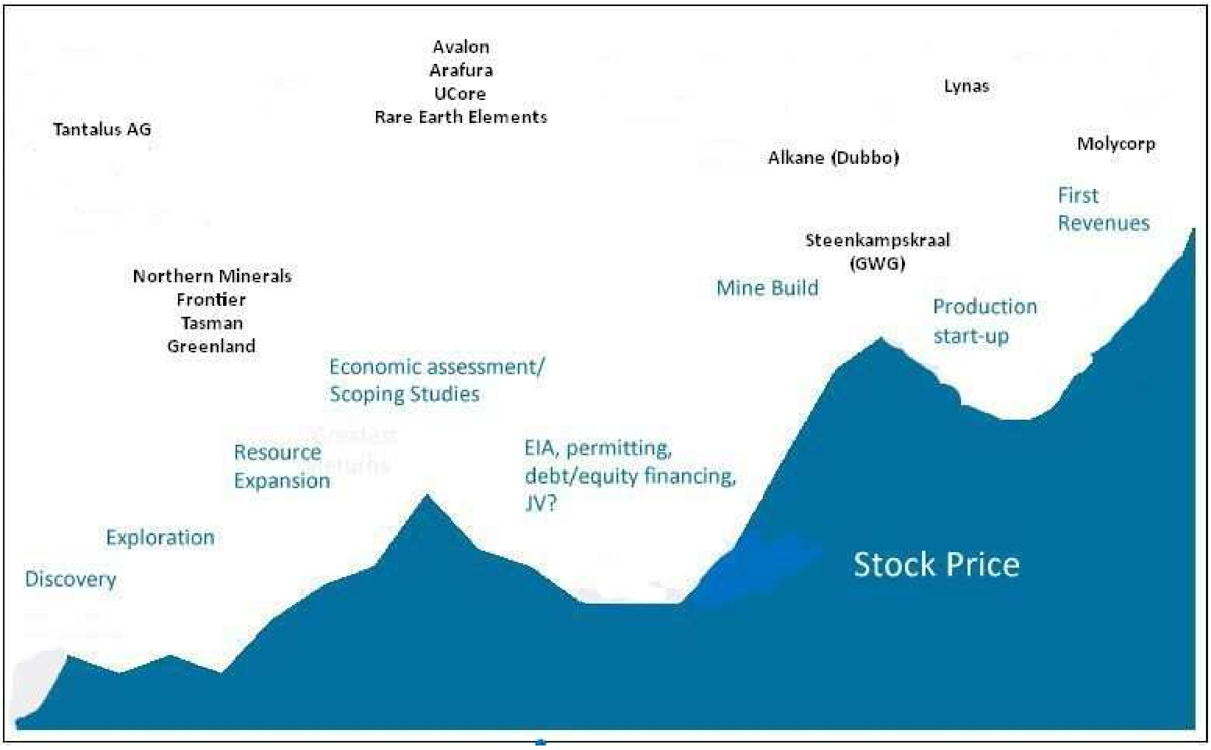
Below can be seen our previous summation of the state of play (as at May 2010).




On the following page is our view of the current state of things. There will be gripes that a lot of names are missing (well, two hundred) but how do we fit all these into the Exploration category and not blow our chart to pieces. It is no surprise that the three most advanced names have not moved forward much as the build time for a plant is considerable. Molycorp though has pulled ahead of the field even further as its Silmet purchase has bolstered its claim to be in the First Revenues category, while the juicy prices for Lanthanum and Cerium over the last twelve months provided a windfall to what was originally a marginal activity selling material off old stockpiles.

Lynas was coming up fast behind Molycorp and looked like it would be first to produce "new" REE product when it had a major setback supposedly from Malaysian environmental NGOs but more likely the hidden hand of powers that be in the existing REE marketplace.

Great Western is now gearing up for a plant build in South Africa and this should put the first Western heavy REE out in the marketplace in early 2013.




Ucore and Rare Element have moved up into the scoping study category. After a recent field trip with Ucore we feel quite confident that its Bokan Mountain project is on the cusp of the EIA/permitting category as it plans to sink a decline into the deposit and begin a form of production in 2012. Rare Element on the other hand still appears to be Waiting for Godot (in the form of an acquirer).

Avalon neither moves forward not backward and has been put in the same basket as Novagold and Seabridge in terms of likeliness to move forward.

A small group of companies are involved in resource expansion (i.e. they have a resource and are now expanding it) and the vast unwashed are still wallowing about in exploration on properties that do not hold anything that special (or with such super-infrastructure to justify them advancing faster and cheaper than others). Tantalus gets special mention because its Madagascar deposit is reputedly ionic absorption clays, the finding of which is somewhat akin to finding the Holy Grail.

Many companies would argue to investors that they have such a high-grade or such a large resource, but truly the vast bulk have nothing to distinguish them from the barbarous multitude. We have thus omitted the hoi polloi. This is not to say there may not be some gems in the rough, but like a nightclub that rolls up its velvet rope after a certain time, the beautiful, well-connected jetsetters can still find themselves standing on the pavement if they arrive too late. While some think the REE race is yet to be run, we feel the victors are already parading in the winners' circle.

**Apocalypse Now in Rare Earths**

Much as players in the REE space like to underestimate the discrimination of the investor pool we think it is evident that investors have finally started sorting the likely survivors from the doomed and the process is being carried out in a remarkably accurate fashion. One "major" that has fallen 70% in value is particularly deserving of this decline for its sheer unlikeliness to ever become practical.

Tempting as it is to say "we told you so" there is always the danger of a dead cat bounce in the REE space that will bring the boosters back out of their hiding places. But like all dead cats, the boosters have really nothing to say on the bulk of the names out there.

**Calibrating the Spin**

We note that a few of the more marginal wannabes that had stronger assets outside the REE space in the first place and were merely dabbling to try and add some shine to their stock price have been the first to exit.

The latest attempt to extend the spin consists of a subtle rewording of promotional materials. The word "earth" is dropping out of nomenclature and "metals" is back in. This is not mere window dressing, but an attempt to rope into the story the Niobium grades that more than a few "REE deposits" have in their mineralisation. In a world in which REEs had never become hot, more than a few of the currently touted REE deposits would more properly be described as Niobium mineralisations. With Niobium currently sourced largely from one mine in Brazil (with over 80% of global supply) and the bulk of the rest coming from Canada (Iamgold's Niobec mine in Quebec). While not in a crisis state, the producing sources are currently few and thus a story could be made for "potential" shortages. Niobium is used in alloys and super-alloys as a strengthener for steel.

The recent BGS survey on the ranking of Criticality of Supply for metals, ranked Niobium at sixth place, just after REE. So investors should not be surprised to see those who can, try and pull a Niobium as a "sorta" Rare Earth promotional stunt. As Tantalum is often associated with Niobium, one should also not be surprised to hear "conflict minerals" (a Tantalum buzzword) tripping from the lips of desperate REE IR promoters in coming months.

And on that score we could not help noticing that in recent weeks, Avalon Rare Metals (which never dropped the "metals" from its name) announced it was "resuming" work on its 100% owned Separation Rapids lithium minerals and Warren Township calcium feldspar projects. Frankly we had never heard mention of these in the past. So it just goes to show that even at the heights of the REE universe (if that is where Avalon sits) the dialogue shift is also afoot.

**Conclusion**

The REE space has taken on a rancorous tone in recent times with companies involved in catfights over who will prevail, while some newsletter writers and analysts have been vilified for calling it as they see it. We were even admonished with "you have a vested interest in seeing this work, so you should talk it up" by one newsletter writer. We have to suspect that the high tension in the air is the result of more than a few parties thinking that it is a race for survival and thus pushing or tripping a competitor will advance their own cause. The criticism directed towards realists in the analytical community dispalys a fear that mere words alone can prick the bubble. If the REE phenomenon is that fragile that it cannot withstand a few naysayers then it is an over-stretched bubble indeed.

The leaders in the race are becoming more evident. Scarcely any new names have moved to the front of the pack and some of the early starters have stagnated or gone backwards. It is not clear what will dramatically thin the ranks beyond a financing drought. Quite a large number of "no-hopers" are financially well-padded so they can outlast a long drought. But what if the drought is permanent? Then surely it is better to find a new direction and head there rather than struggle against a tide of indifference in an overcrowded sea of REE wannabes.

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