

Overview and Investment Comment

The outlook for rare and minor metals

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Rare and minor metals (RMM) equities have made considerable share price (sp) gains in the past 12 months (sp +118%), in parallel with metal prices, but speculation has cooled in the past quarter (sp +5%, for a basket of 304 stocks). Companies with good-quality projects have retained most of their gains from the second half of 2010 and remain close to yearly share-price highs.

The main commodity and equity market driver is China. This has been the case for the past several years and is likely to remain so for the foreseeable future. China is reforming its RMM sectors, by raising tariffs, reducing export quotas, stockpiling metal to ensure steady supply, and encouraging consolidation and vertical integration of production. China's stated aims are to increase domestic value-adding and use of the RMM, conserve resources, and improve industry monitoring and efficiency. China's actions could boost global RMM production.

Some examples of commodities with a stable to strong demand outlook for the next several years:

- **Lithium:** Increasing intensity of use will require additional supply beyond 2014, although new mines could lead to oversupply.
- **Niobium:** Industry forecasts are for FeNb consumption growth of ~15% per annum to 2014.
- **Rare earth elements (REE):** Forecasts are for 6-10% annual growth in demand to 2015. Export prices (China) up 679% year-on-year.
- **Tantalum:** A supply shortfall is expected to hand a competitive advantage to companies that provide a long-term supply of ethically produced tantalum, including Wodinga (WA, to be recommissioned).
- **Tungsten:** Supply shortages are indicated from 2013.

RMM deposits can take 5+ years to develop as mines, sometimes due to their geochemical complexity, and the challenge of financing projects that are still considered to be outside the resources mainstream.

This provides an opportunity for companies with projects that are advanced or can be fast-tracked, e.g. due to location, favourable chemistry, size and/or high grades).

Equity performances

Globally, RMM stocks have matched or outperformed most exchange-based indices in the past 12 months. Share price performances have been studied, for 304 exchange-listed companies with one or more RMM projects (in six groups: lithium, REE, tungsten, zirconium, niobium, tantalum).

The unweighted average performance over 1 month (to February 16) was +6%, compared to 5% for Australia's ASX S&P300 Metals and Mining Index, and also 5% for the ASX All Ords. Twelve-month performance was +118% (S&P300 MM, +25%; All Ords +9%). The average RMM company share price is 25% below its yearly high and 249% above a 12-month low.

The current market driver is China's policy of rationalising supply and cutting exports.

Strong medium to long term market and price growth is likely for many RMMs

Companies with strong projects should continue to benefit from the buoyant RMM markets.

Share prices of rare and minor metal companies have outperformed the ASX over the past year, with +118% annual growth.

RCR March Quarter 2011 Featured Company Summary

AUSTRALIA

Company	Code	Commodities	Comment
Alkane Exploration Limited	ALK	Gold, Rare Earths, Zirconium, Base Metals	Definitive Feasibility Study The Tomingley Project (840koz Au) has advanced to the stage of project financing (A\$95m needed). ALK has raised \$21m at \$1.05/share to complete a DFS on the Dubbo Zirconia Project (DZP), which could be producing Zr, Nb and REE (up to 6.5ktpa) by 4Q12.
Arafura Resources Limited	ARU	Rare Earths, Phosphorus, Uranium, Gold	Bankable Feasibility Study A major drilling program at the Nolans Project (NT) could upgrade the current 30.3mt resource, and justify expanding future REO production beyond 20ktpa. Demonstration-level process testing is running successfully and to schedule, as part of the BFS (expected 4Q11).
Galaxy Resources Limited	GXY	Lithium, Tantalum, Manganese, Iron	Production With Li production started at Mt Cattlin (WA, expected Li ₂ O ~8.2ktpa) GXY can add value through vertical integration, as a near-term provider of lithium carbonate (Jiangsu, China) and possibly Li ion batteries. HK listing in 1Q11 could bring additional US\$260m funding.
Globe Metals & Mining Limited	GBE	Niobium, Tantalum, Rare Earths, Uranium, Fluorine	Bankable Feasibility Study (BFS) An A\$41m investment by China's ECE in the 60Mt Kanyika Niobium Project (Malawi) should go ahead in 1Q11, paving the way for a completed BFS. Exploration programs at Machinga and Mount Muambe have found highly encouraging levels of rare earths.
Greenland Minerals & Energy Limited	GGG	Rare Earths, Uranium, Zinc, Sodium Fluoride	Pre-Feasibility Study Mineralisation is confirmed 7km from the Kvanefjeld resource, with 185m @ 1.2% TREO, 442ppm U ₃ O ₈ , 0.34% Zn. GGG has permission to evaluate the deposit's multi-element potential, including uranium (forecast REE 43.7kt/yr, U ₃ O ₈ 3.9kt/yr). A DFS should start 2H11.
Hazelwood Resources Limited	HAZ	Tungsten	Project Construction HAZ has rapidly built up its WO ₃ assets to supplement the Big Hill project with ATC (Mar '10) and Mt Mulgine (Sep '10). Meanwhile, FeW prices have been climbing steadily. Further funding will be required for HAZ to realise its global WO ₃ player aspirations.
Icon Resources Limited	III	Tungsten, Gold, Base Metals, PGE	Scoping Study Mt Carbine (QLD) could be producing tungsten from historic mine tailings this year, in a 2 year operation. Encouraging results of ore sorting trials mean the project could expand to retreatment of low-grade stockpiles (4-6 years), followed by hard rock mining (10+ years).
King Island Scheelite Limited	KIS	Tungsten, Copper, Gold	Feasibility Rising tungsten prices, and regaining 100% control of the King Island Project, have led to a market re-rating of KIS: share price +113% in three months. Potential for 3.6kt/yr WO ₃ from a reserve grading 1.3% WO ₃ , with initial 1kt/yr from reprocessed tailings.
Latin Resources Limited	LRS	Iron ore, mineral sands (rare earths, zircon, tungsten, andalusite)	Mid Exploration The share price of this recent, Peru-focused ASX listing has surged on news of a sevenfold increase in the scale of its Guadalupito mineral sands project. Drilling of the iron-rich sands, and of magnetite skarns near Ilo, is planned for coming weeks.
Lynas Corporation Limited	LYC	Rare earths	Project Construction LYC has a strong competitive position in rare earths due to its world class resource, integrated mine to market approach, first mover advantage in offering new supply from a source outside China, and its pricing and cost advantages.
Northern Minerals Limited	NTU	Lithium	Mid Exploration The re-named NTU (formerly Northern Uranium) now has the rights to explore for multiple commodities in the Tanami region (WA-NT), widening its focus to include rare earths and gold. With cash A\$7.4m in December 2010, intensive exploration is planned for 2011.
Orocobre Limited	ORE	Lithium	Definitive Feasibility Study The Salar de Olaroz deposit has the characteristics to become the world's next large scale, low cost lithium-potash brine operation: attractive chemistry, a JORC compliant resource, proximity of infrastructure and the financial support of Toyota Tsusho.

CANADA

Avalon Rare Metals Inc	AVL	Rare Earths, Niobium, Tantalum, Zirconium	Bankable Feasibility Study (BFS) Indicated resources in the Basal Zone of the world class Nechalcho REE Project (Canada) were recently expanded by 181%. A Bankable Feasibility Study is expected in 2Q12 and the project could be producing 10ktpa total REO in 2015, along with Nb, Ta and Zr. Share price +177% over 12 months.
Rodinia Lithium Inc	RM	Lithium	Early to Mid Exploration Rodinia is anticipating initial resource statements in 1Q11 at two lithium brine projects in the US and Argentina. The strategy is to explore salars near high grade Li and pre-existing infrastructure. Strong exploration results have led to share price +70% in 6 months.
TNR Gold Corp	TNR	Gold, Copper, Lithium, Rare Earths	Early to Advanced Exploration TNR's near-term exploration program will focus on lithium brine projects at Mariana (ARG) and Clayton Valley (Nevada), as well as gold at Shotgun (Alaska). The proposed TSX spin-out of Li and REE assets as International Lithium Corp (ILC) could proceed in 2011.