

PRIMARY MOLY PRODUCERS: ONE KEY TO THE MOLYBDENUM PRICE

Inside Four Near-Term Primary Moly Miners

Part Two of a Two-Part StockInterview Series



The 2,500-mile Druzhba pipeline, the world's longest pipeline, is the principal daily transport for 1.2 million barrels of Russian and Kazakh oil across Europe. Built in 1964, a recent survey showed 487 damaged points. It needs a major overhaul and more molybdenum. Courtesy of the EIA.

By James Finch

From aging oil and gas pipelines to new pipeline projects, the next decade is likely to see a large number of pipeline projects across the globe. Because of China's scramble to obtain sufficient oil and gas for its 'emerging' economy, Russia's ambitions to supply Europe and others with its oil and gas and dozens of other projects proposed, planned or under construction, molybdenum should remain in favor for longer than many analysts have forecast. Global pipeline projects could account for as many as 73,000 miles of pipe over the course of the next two decades.

On the high side, if 1,600 tons of pipeline steel were required for every mile of pipeline (52-inch diameter, high

pressure), the energy industry would need more than 600 million pounds of molybdenum. That's about 150 percent of the world's current production, which would draw away from the many other uses of molybdenum. Just a handful of large pipeline projects would create sufficient price upside to encourage further molybdenum mining project developments.

About 65 percent of molybdenum production is a by-product of copper mining. Produced at a far lower cost, the moly byproduct must be upgraded with the higher grade molybdenum mined at primary mines. William Cook, North American representative of Derek Raphael & Company, told StockInterview, "Primary moly production is a necessary component in the market due to its higher quality, which

is necessary to blend with what is often an off spec product coming out of the byproduct mines.”

The minority molybdenum product mined by primary producers helps blend up the lower spec moly concentrate from the byproduct mines. The minimum industry spec is 50 percent moly sulfide. Primary molybdenum mines will have more than 50 percent, but many of the byproduct mines won't. Ideally, once the roasting process is completed, the roasted moly will yield 56 percent molybdenum oxide and 0.5 percent copper in oxide. This helps explain why Cook told us, “I believe the cost of new primary production will determine the benchmark price or base price for moly in the future.”

That doesn't mean bigger is always better. Cook told us, “I do not believe we will see any of the moly mega deposits developed in the foreseeable future. The capital costs, reclamation liabilities and operating costs for these projects are considerable. And in order to make them economically viable, they require an annual production of perhaps 25 to 30 million pounds of molybdenum.” Cook pointed us to the small higher grade primary molybdenum deposits, where he believes is from where future moly production will come, along with byproduct and Chinese production.



*Maria Smirnova
of Sprott Asset Management*

Sprott Asset Management Research Associate Maria Smirnova, who follows molybdenum for the Toronto-based money manager, believes this strategic metal was bright prospects for the next few years. “We see demand growing, while there are not many new sources of supply,” she observed. “In a market where 16-20 million pounds of new supply is required every year to keep up with demand, we are aware of less than 10 million pounds coming on-stream next year from new mines.”

Smirnova also agreed with Cook and Michael Magyar of the USGS, who discussed moly byproduct mines in Part One of this series, and said, “Existing mines are struggling to grow/maintain production.” She pointed to Kennecott's copper/molybdenum mine in north central Utah, “For example, the Bingham Canyon mine is expected to produce

10 to 15 percent less metal next year due to lower grades.” She included Chile's mammoth copper/moly producer in her assessment, “Codelco has stated they will not repeat the record levels of 2005 due to ‘conditions of the deposits and availability of molybdenum.’”

As Cook pointed out, the mega projects could spell trouble. Smirnova added to his comments, “In the longer term, there are a number of large projects that could provide over 100 million pounds of new mine supply by 2010. Unfortunately, most of these are low-grade projects requiring large amounts of capital investment.” What will happen to these promises of abundant new supply? Smirnova responded, “We think that at least some of this expected supply will get delayed or mothballed altogether due to permitting issues and financing difficulties.”

Inside Four Near-Term Producers

Although junior molybdenum companies have not sprouted like weeds, as we find in the uranium sector, there are quite a few loud stock promotions. The oft-heard phrase in the uranium sector is some juniors are mining the stock market, not for uranium. The same could apply to the primary molybdenum mining sector.

We reviewed the prospects of four companies, and believe all four should become near-term moly producers. One of those, through its acquisitions, can be considered a molybdenum producer. “Blue Pearl's acquisition of Thompson Creek Metals has catapulted it to one of the largest and most profitable mining companies in Canada,” Smirnova told StockInterview.

Blue Pearl Mining Ltd
TSX: BLE; Frankfurt: A6R



BLUE PEARL MINING

On October 26th, Blue Pearl announced closing on its acquisition of the Thompson Creek assets, which include the Thompson Creek mine and concentrator in Idaho, a 75% interest in the Endako mine, concentrator and roaster in British Columbia and the Langeloth metallurgical refinery plant in Pennsylvania. The U.S. roasting facility has a capacity of approximately 35 million pounds per year. The transaction, literally, transformed the junior molybdenum company into the world's largest publicly traded stand-alone moly compa-

ny. Smirnova told us, “Blue Pearl now ranks in the top five of the world’s moly producers.”

According to Smirnova, the company is preparing a feasibility study with the expectation it will be completed later this year or in early 2007 for the company’s Davidson molybdenum deposit in northwestern British Columbia. She explained there were a number of milestones before the company could begin production in 2008.

As for the already producing Thompson Creek mine, she said, “The mine had almost 170 million pounds of contained molybdenum in proven and probable reserves at the end of 2005, giving it a minimum mine life of ten years. This could potentially be doubled by converting some of the measure and indicated resources to reserves – total resources at the mine were 370 million pounds at the end of last year.”

Editor’s Note: Sprott Asset Management Inc, through its funds, has investments in Blue Pearl.

Roca Mines Inc.
TSX: ROK



Production is imminent at the MAX molybdenum project, about 36 miles south of Revelstoke, British Columbia. According to our conversation with Scott Broughton, Chief Executive of Roca Mines, “We broke ground in May (2006) and have fast-tracked the engineering project to production.” Indeed, the company has begun the first steps toward imminently producing.

According to an email clarifying the company’s progress, the company’s spokesman wrote, “Roca is currently performing underground development work at MAX which includes the mining of ore-grade material which is being stockpiled for initial throughput at its on-site mill. Formerly operated by Asarco in Washington State, the mill has been dismantled, with upgrades to certain components and is currently being re-assembled adjacent to the MAX mine.”

We talked with Broughton about the company’s rapid progress toward production. He told StockInterview, “We’ve been really lucky. There are all kinds of unknowns as you go through this process.” He compared the project to building a house. “We’re having an exciting time, and everything is shaping up nicely.”

The project is also fascinating because share dilution is minimized. The company plans to mine its high grade molybdenum deposit, using its cash flow to further explore the property’s potential for a much larger deposit. Smirnova gave

the company her blessing, saying, “Roca is one of the very few emerging moly producers that we know of.” She added, “Roca is still progressing towards beginning production at the end of this year or early next year. The goal is to utilize their small mines permit at the MAX molybdenum project to produce up to three million pounds of metal next year.” Newmont and Esso Minerals has expended US\$15 million in the late 1970s and early 1980s before shelving the project after molybdenum prices collapsed.

The MAX deposit is National Instrument 43-101 compliant, showing a resource of 113 million pounds. It is also considered open at depths, and the company hopes to expand the resource next year. Roca Mines is fairly well followed, and as Jared Woods writes in his micro-cap stock blog MicroCap-Mayhem, “The MAX shares geological similarities to Phelps Dodge’s Urad/Henderson mine, which is the largest molybdenum deposit in the world. (It is speculated that MAX, with its high-grade moly ore, is only the tip of the iceberg, hosting a much larger deposit underneath.) Smirnova wrote, “The key for them would be to secure a full-scale mining permit after demonstrating successful operations on a smaller scale. *Editor’s Note: Sprott Asset Management Inc, through its funds, has investments in Roca Mines.*

New York-based Institutional Research Partners LLC issued a speculative Strong Buy recommendation on Roca Mines in its initial coverage on October 30th with an 18-month price target of C\$5/share. The research firm’s analyst wrote, “We see Roca Mines as a company with tremendous potential, hidden value and takeover potential.”

Progress at the mine and mill site is continuing. “All three key elements are coming together at the same time,” Broughton explained. He was referring to the mining operation, the mill which is being assembled and the tailings facility. Until the tailing facility is constructed, the mill can not be operated. He hopes the mine will be commissioned by the end of the year. In July, the company announced an offtake agreement to sell its molybdenum production for 2006 and 2007.

Win-Eldrich Mines Ltd
TSX: WEX



In a March 2006 article, Peter Spina, an analyst for Gold-Forecaster.com, called Win-Eldrich Mines’ Ashdown project “arguably the richest (not the largest) moly deposit in the world.” In his article, he explained, “The initial target for production is a section of the Ashdown’s Sylvia vein. It is said to be a 200-foot long deposit calculated to contain 21,550 tons of ore averaging 8 percent moly, before dilution.”

In an email, he wrote to us, saying, “Ashdown mine and mill permits have been received and the Ashdown Project LLC hopes to begin production of molybdenite concentrates during the 4th quarter of 2006.” Perry Muller, president of Win-Eldrich, was excited about recent developments at his company, explaining, “We are pleased with the approval of the Plan of Operations and its coinciding with reaching the High Grade molybdenum ore in the Sylvia vein.” He added, “It is shaping up to be an exciting Christmas.”

The Ashdown molybdenum project is located in northwestern Nevada’s Humboldt County. Win-Eldrich holds a 40-percent interest in the project. Another company acquired 60-percent interest in a joint venture by paying for all start up costs for the mine and mill. The deposit is reportedly open to the north, the east and at depth. Many commentators had prematurely announced mining at this deposit, but it wasn’t until November 2nd that the company issued a news release regarding a “finding of no significant impact” by a Field Manager of the Bureau of Land Management.

According to the company’s website, “The north end of the historic high grade molybdenum zone (the Sylvia vein) has been intersected. The old decline has been dewatered and two faces are currently being developed. The crushing and milling circuits have been tested separately and a small amount of molybdenum concentrate has been produced.”

The company also posts on its website a caution, “WEX has not completed a National Instrument 43-101 compliant economic analysis of the deposit and no assurance can be given as to ultimate profitability.”

United Bolero Development Corp
TSX: UNB, Frankfurt: U7N



In reviewing stories written by others about different companies, the comment an industry insider told us rings true: “Many of these companies look at their projects and time-frames through rose-colored glasses.” While many of the molybdenum exploration and development companies we reviewed fell into this category, United Bolero was quite the opposite. They might as well have been given up for dead. Now, it turns out, this might be the turnaround story of 2006. We first got pitched on this company in June, but avoided discussing it. When one of our sometimes-quoted sources, David Michaud, who is a metallurgical engineer, suggested we look at it again, we did so quite reluctantly.

Michaud, who is also technical advisor to the company, thought United Bolero had gotten a bad rap. The word on the

street about UNB was, “Montana’s Bald Butte moly deposit has metallurgical problems.” But, our trusted metallurgist said it wasn’t so (read his resume to understand why we trust him).

In a recent email, Michaud wrote, “The initial plant trial performed by UNB gave poor results for the simple fact the material being sent to the plant was ‘weathered.’ This means it was exposed to surface or was located at very shallow depth and had been oxidized over time.” Michaud compared the oxidization to how a car rusts when exposed to moisture and oxygen. “The molybdenum sulphides at Bald Butte had turned into oxides and were made un-recoverable in a sulphide flotation plant,” he wrote to us, adding, “therefore, generating low recovery of the solid metal.”

United Bolero stripped off the oxide cap and completed initial scoping tests to evaluate the metallurgical performance of the material. In an October 17th news release, the company confirmed the sample had acceptable metallurgical behavior. After an assessment by G & T Metallurgical Service (Kamloops, British Columbia), Michaud wrote back to us, “Recovery of molybdenum into the rougher concentrate varied between 90 and 95 percent. The rougher concentrate can be upgraded to a marketable 50 percent molybdenum concentrate grade at around 80 percent overall molybdenum recovery.”

Based upon Michaud’s research, we felt comfortable in chatting with the company’s Chief Executive Bruce Duncan about Bald Butte, which had been worked by Gulf Minerals during the previous moly bull market. He told us, “Bald Butte has an historical, non-compliant (National Instrument 43-101) resource of 131 million tons grading 0.077 MoS₂ at a stripping ratio of two to one.” In other words, the Montana property has about 200 million pounds of molybdenum, which has not yet been confirmed with an official document.

Duncan assured us the company was in the process of compiling data to issue a National Instrument 43-101 on the resource. “We’re still waiting for some assay results to come back,” he said. What will be the production costs on this high-tonnage, low-grade moly deposit? “All we have done is a back-of-the-napkin that Bruce Parker (the qualified person) supplied to us,” Duncan explained. “We feel that we could possibly produce moly there, somewhere in the neighborhood of about \$8 per pound, all costs in.” That’s in the general ballpark of what our experts told us, although a few dollars on the low side.

He believes if everything moves smoothly, Bald Butte could be in production over the next two to three years. But this is Montana, we laughed. “We believe the permitting process might be a little faster than people think,” he responded. “First, it’s patented property, and second this is a benign deposit.” He also explained that mining companies are a good source of revenue, and the state could use the high-paying mining jobs his company would provide.

United Bolero has a second property, formerly explored by Cyprus, called Cannivan Gulch. While it is a bit higher grade (0.86 percent), the property has a historical estimate just slightly less than Bald Butte. Duncan wants to bring this one to 43-101 standards next years. Until then, he told us, "We want to go full steam head in moving forward Bald Butte."

As with uranium companies, there are numerous molybdenum companies from which to choose. Also, as with uranium, it depends upon in which direction the molybdenum price is going. Eric Coffin, editor of Hard Rock Advisory, cautioned us, "If we are sitting at a moly price of \$35 to \$40/pound, there are quite a few molybdenum deposits out there." The question investors should ask of any of the above companies featured in this article is this: How profitable will your company be at \$15/pound? If a company can profitably mine at that level, then imagine how well off its shareholders would be should molybdenum hold at \$25/pound or rise higher.

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