

# Kingsnorth responds to Lifton's Lynas and Molycorp update

**Note from the Publisher:** I have Professor Dudley J. Kingsnorth's update on the rare earth industry, he graciously mailed us that we received last week titled *The Rare Earths Industry: Marking Time*. Currently in preparation for a summary article for our InvestorIntel readers, we noted the following commentary underneath Jack Lifton's article Dudley posted earlier this morning. Due to the length of his response, I have elected to post this as a stand-alone commentary for our audience review and debate.

**Professor Kingsnorth:** "I am not sure what Leader Myths with Respect to Lynas and Molycorp that Jack has debunked (click here to access Jack Lifton article), but the facts are:

1. Mountain Pass and Mt Weld are the only non-Chinese rare earths projects that have been constructed in the last 10 years. No other project has achieved full approval (financial and environmental), let alone have the funding in place and commenced construction. So, by my reckoning Lynas and Mountain Pass are Leaders.
2. LREEs also include neodymium and praseodymium, for which supply is tight short supply. So, while acknowledging that there are large surpluses of cerium and lanthanum, the potential shortages of these 'magnetic' rare earths cannot be ignored. No comment from Jack.
3. I chose my words carefully in stating that to restore confidence in the rare earths sector in the immediate term Molycorp and Lynas have to demonstrate that rare earths production is viable in terms of generating a positive cash flow. Whether this cash flow represents an acceptable return on the capital invested or is adequate

in terms of paying off debt is another issue. There are many instances in which the early pioneers of a 'new' project have gone out of business due to large debt, but have subsequently been taken over/purchased by an organisation at a fraction of the debt and then been turned around.

4. Molycorp has been in the rare earths business for over 50 years, while Solvay/Rhodia (who are providing technology to Lynas) have also been in the business for over 50 years. Rare earths processing is a complex business as shown by the extended start-up times at Mountain Pass and the LAMP at Gebeng. I am not aware of any technology arrangement in place at this moment in time by any of the companies/projects identified by Jack that would provide the confidence required for investors to consider investing in them. So, in terms of technology Molycorp and Lynas/Solvay are Leaders.
5. Similarly, Molycorp and Lynas are selling/shipping product from their operations; in total in excess of \$500 million. This would seem to contradict Jack's comment that that they are not qualified suppliers; the issue of a 'premium' is all part of negotiating a supply agreement which are confidential and is therefore irrelevant as the majority of sales are B2B. To my knowledge none of the projects identified by Jack have any contracts of supply in place that would underwrite financing, let alone sold \$1 worth of rare earths to an industry specification. This would seem to indicate some leadership by Molycorp and Lynas.

For a while Jack has been trumpeting the ultimate demise of Lynas and/or Molycorp. I fail to see how the demise of one or both companies would encourage investors to invest in other projects. Furthermore, can Jack identify anyone, apart from the major Chinese rare earths producers, who could takeover Lynas and/or Molycorp and 'turn them around'. If there were such people available they would be leading producing rare

earths companies and available to 'assist' Molycorp and Lynas.

I have visited both operations in the recent past and remain in regular contact with the companies. While, we are all disappointed with the time taken to start-up their respective operations I remain confident that both Molycorp and Lynas will achieve regular production for extended periods at their respective Stage 1 design capacities in the not too distant future. Furthermore, I believe that they should both generate positive cash flows from their operations in 2015 at average prices for the year to date. These conclusions are based upon public information and tours of the respective facilities.

Jack is very fond of making predictions based on miss-information. Myself and several others recall him stating at a rare earths conference in China a few years ago that "Molycorp will never produce a kilogram of rare earths". Undoubtedly, his knowledge and understanding of the industry has improved since then, so perhaps he could provide us with some 'guidance' as to when his favoured five rare earths companies are likely to be in production

Yes, the rare earths sector is still experiencing uncertain times, but now is not the time to conclude that 'we are all doomed'. The current journey to the start-up of Mt Weld commenced some 20-25 years ago and Mountain Pass some 5-10 years ago. Unfortunately, they still need more time. Rome was Not Built in a Day."