

Weekly Rare Earths Review: 'From Malaysia with Optimism'

✘ The share prices of ProEdgeWire sponsors for the week ending on February 22 registered a minor drop of 4.14% in a week that was not especially rich in groundbreaking revelations or developments. However, when considering the Australian markets and one of the emerging players in rare earth production, Lynas Corp (ASX: LYC | OTCQX: LYSDY), while it closed the week at -8.8% in Australian trading and -4.06% in OTCQX trading after announcing a net loss of AUD 54.5 million for the first half of the 2013 financial year (almost doubling the previous loss) due to higher costs and the purchase of raw materials needed to get production started in Malaysia. In fact, investors welcomed Lynas' performance and shares closed 5.3% higher in Australia, gaining 7.5% at the OTCQX (at the time of writing).

The message from investors is optimistic and they are betting that Lynas' performance will start improving as production in Malaysia progresses, especially in view of the Company's surmounting the various legal obstacles posed by NGO's such as SMSL and the Malaysian elections now rumored to be scheduled in early April. The Malaysian government has supported Lynas and while the opposition has used Lynas as a political 'football', raising the issue of approval, the legal requirements for the system are clear – and Malaysian standards match European ones – and there are no further legal hurdles.

Stans Energy (TSXV: HRE | OTCQX: HREEF) was another standout, showing a weekly gain of 18.18% on the TSX and 15.5% on the OTCQX. There was no news to prompt this show of confidence other than the Company believes the new and more mining friendly Kyrgyz Geological Agency will ultimately facilitate the approval for the development of the Kutessay II field.

Last week, we also reported that China is pursuing legislation to protect the rare metals sector by strengthening control over industrial practices and environmental standards and curbing the incidence of smuggling activities in the sector. The pursuit of higher standards should help to reduce some of the international trade tensions revolving around rare earths and China; it should also help to boost the development of more sources beyond China's borders as consolidation and rationalization will likely imply higher costs and tighter controls for Chinese producers.

It is obvious that in the past 20 years, China has reached rare earths production levels that are no longer sustainable. The Chinese government is intent on restructuring the sector, perhaps reducing it to a handful of major suppliers that can be monitored, while remaining cost effective and cleaner (in view of a number of environmental concerns raised by a more vociferous population), leaving the market open to competitors from North America and Australia. China needs a steady supply of rare earths itself and both self-lasting supply of rare earths in order not to jeopardize their own economic growth while pursuing a better return on investment from sustainable mining.

Japan, which is the world's largest consumer of rare earths (after China), became concerned with the quality and reliability of supply years ago and it started to take pre-emptive steps even before the exacerbation of tensions with China over the Senkaku/ Diayou Islands. One of the latest projects involves the extraction of rare earth from bauxite red mud by-products in Jamaica. However, since the start of the year, one of the most intense discussions on the need for reliable rare earths has come from Germany, where industry and politicians have been engaged in a discussion over critical resources. Germany has been urging cooperation with its partners in the EU and NATO to take more responsibility in foreign economic and security issues in the long term to

achieve reliable rare earth and critical minerals supplies. The list of companies putting pressure on the German government to pursue this line read like a who's who of some of the world's main Industrial conglomerates including ThyssenKrupp, Bayer, Bosch, Volkswagen AG and BMW among others.

These German giants have warned that if long term supplies cannot be guaranteed, German industry (the largest in the EU) "is in danger". The list of materials considered essential includes rare earths, graphite and tungsten. Germany is also planning to boost its output of energy derived from renewable resources and it needs magnetic materials such as the rare earth elements neodymium and samarium. These have gained increasing importance because they are an integral part of the efforts to build renewable energy facilities and electric and hybrid vehicles. Despite the growing global demand for rare earths, meanwhile, efforts to recycle these coveted commodities are still at an early, or laboratory, stage and a German company, Fraunhofer is among the leading pioneers. The evidence suggest that the biggest industrial economies, China, Japan, Germany and of course the United States are predicting high demand for both light and heavy rare earths. Economies worldwide need them to make a host of goods and technologies from electronic components for vehicles, television screens, mobile phones or wind turbines.



Lynas wins another legal

battle against SMSL

✘ The Australian rare earth producer Lynas Corp (ASX: LYC) announced today that the Kuantan High Court has rejected yet another application by environmental activists (seven residents of the Kuantan area) to repeal the Temporary Operating License (TOL) for its LAMP rare earth processing plant in Kuantan. Lynas reported that the Court blocked the request by the residents, backed and encouraged by the activist group known as “Save Malaysia, Stop Lynas”. Lynas said that now there are no legal or regulatory obstacles preventing LAMP from continuing operations; however, three other Kuantan residents are scheduled to make another appeal on February 5.

Lynas shares traded 1.5% higher in Sydney. This is the second time that SMSL’s appeals fail to receive the Court’s assent. Last December, the High Court had already rejected an SMSL effort to obtain a reversal of the TOL. On that occasion, moreover, the Court ruled in Lynas’s favor over the legal expenses. Lynas is developing one of the most prolific rare earth resources in the world at its Mount Weld property in Western Australia.

Lynas’s LAMP processing facility in Malaysia has had to overcome several legal hurdles. Its latest Court victory certainly confirms that the authorities want to see the facility and the Company succeeding in order to turn Malaysia into a rare earth production leader. This is further suggested by the fact that SMSL hired a German engineer to produce a detailed, 114 page long, technical report outlining problems with LAMP suggesting that the processing plant’s waste recycling mechanisms would fail. That the Court rejected the SMSL appeal in the backdrop of a 100,000 people strong demonstration of bare-footed activists supporting the political opposition led by Anwar Ibrahim (who has exploited the Lynas issue for political leverage in the forthcoming

general election – which must be held until April). It was one of the largest political rallies ever held in Malaysia and its failure to influence the Court's decision suggests just how far Lynas has come in the past few months.

The Court's decision should also help bring or – keep – foreign and domestic investors to Malaysia despite the political level wrangling over projects to gain political points. The Malaysian government should address corporate responsibility issues and environmental matters but it should also offer investors more assurances that contracts would not be scrapped simply to gain political advantages. Foreign investors to Malaysia in the next legislature – the election will likely take place in March – may even get some further guarantees to this effect, should make it more difficult for governments to cancel agreements. The uncertainty that Lynas had to endure in 2012 was highly motivated by political calculations because of the election. That it still managed to emerge successful in the end is a vindication its LAMP facility and project. Plans to build a nuclear reactor in Malaysia had also been postponed because of the social protest against Lynas. However, the authorities have merely pushed back the feasibility study by a few months (i.e. allow the elections to take place and then proceed). The study will now be released in late 2014 with construction for the first reactor starting in 2021.