

Lifton comments on the 'significant signing' of Tantalus Rare Earths off-take agreement with Shenghe Resources

✘ I received the press release about Tantalus Rare Earths ("TRE") signing a commercial purchasing agreement with Shenghe Resources, a leading Chinese rare earth company last night. "Shenghe has agreed to purchase 30% of output or 3,000 tonnes of mixed rare earths oxide from the Tantalus project in Northern Madagascar annually."

My intent is to provide feedback on the significance of this news release as a courtesy to TRE, a German junior rare earth company with a large property, in development in northern Madagascar, which the company describes as an "ionic clay type." [Full disclosure: I was a member of the Tantalus Supervisory Board, which is equivalent in the USA to being a member of the board of directors of a public company, until August, 2013. At that time the German industrial group, ThyssenKrupp, took a large interest in the company and asked the board to resign, so that its ThyssenKrupp Metallurgical division could reform the board to reflect its interests. I own no shares in the company nor do I have any consulting or other fiduciary relationship with it at this time.]

The interested investor needs to know that **Tantalus** has today become **the first rare earth junior of which I have direct knowledge to close an off-take agreement with a major rare earth market player.** China's Shenghe Resources, which is a vertically integrated company that mines rare earths, separates them, and produces rare earth metals and alloys.

Shenghe in fact operates the third largest LREE mine in China. It has a turnover of (USD\$) 227/year and is listed on the Shanghai exchange (**SHA: 600392**) with a market cap of \$1.6 billion dollars, which I should point out is 14 or 15 times the market cap of Molycorp and easily greater than the combined market cap of the first 25 companies on the TMR Rare Earth Index. Shenghe is a large profitable (I think) vertically integrated rare earth company; it is one of several such integrated entities in China. I will bet that none of readers has heard of it before today!

Tantalus is a European company; its rare earths deposit is on the Indian Ocean island nation of Madagascar, which is west of southern Africa. An ocean going vessel loading ore concentrates in a Madagascar port can sail directly to a Chinese ocean port and offload its cargo to a train that will take it directly to a Shenghe facility. The only borders to be crossed will be Madagascar's and China's.

I congratulate Tantalus, and I note that it is not constrained by any legal or cultural norms from trading directly with China.

The "deal" calls for first ore concentrate loading in 2016; this is ambitious, but I have no reason to believe that Tantalus will not pull it off.

Finally I need to point out that the very existence of this off-take and its size and scope (3,000 tons per year for 3 years renewable for an additional 7 years) and its component that calls for Shenghe to assume 30% of the development costs of the Madagascar mine providing the company achieves certain benchmarks shows that:

1. The property and the business model have been thoroughly vetted by a competent Chinese due diligence team, and that
2. A Chinese company is admitting either that China itself

is in need of imported material or that such material can be obtained more cheaply by importing it than by buying it domestically, but in either case or in both cases the Chinese company has clearly gotten clearance from China's central government to conclude this agreement. **This is the first time of which I am aware that such a deal has been concluded.**

There is nothing to prevent an American, Canadian, European, or Australian company from now going after a similar deal with a Chinese customer. Nothing physical that is. What is required is EXPERIENCE in metals trading; solid contacts with "connected" Chinese businessmen in the field; and an offer of goods that makes solid economic sense. Tantalus has all of these.

This will not be the last we will hear of this deal...