

INDUSTRY COVERAGE

//Rare Earths



STORMCROW

April 21, 2015

UPDATE NOTE

News Flash: The Light at the End of the Tunnel is not a Train

Since the imposition of the stringent Chinese rare earth export quotas in mid-2010, the resulting rapid price increases through the middle of 2011, and the subsequent collapse in rare earth demand and prices since the latter half of 2011, we have called for a recovery in demand and a stabilization and eventual (slow) recovery to take place in prices. We based our analysis on two simple factors. Most importantly, while it is possible to build products without using rare earths, the rare earths do simplify engineering and design and thus it is preferable to use them. All providing that the rare earths can be obtained at a reasonable price and from what seems to the buyer to be a reliable supply chain.

The other factor, however, is that skyrocketing prices and potential disruptions in supply resulted in a crash program by many companies to design rare earths out of their products, which took almost a year in many cases. Price increases were seen from the middle of 2010 to the middle of 2011. Under extreme pressure, re-design to eliminate or reduce rare earth use took roughly twelve months. We estimated that it would be 24 to 36 months past the bottom of the pricing cycle until companies began to increase rare earth use in new product designs.

There are signs that we have now reached this point. While rare earth prices are still demonstrating seasonal effects, most especially the price increases and decreases just prior to and just after the Lunar New Year in China, the trend is now demonstrably positive in terms of current pricing. As we expected, the recovery is most pronounced in magnet materials such as neodymium and dysprosium, and least pronounced in cerium where we believe that quasi-permanent damage has been done to demand.

Here, we show the trend in rare earth pricing for neodymium, dysprosium and cerium over the past seven months. While we acknowledge and expect that the trend for cerium is flat to declining for the foreseeable future, we also note that the recent trends for neodymium and dysprosium are positive.

Jon Hykawy, PhD

President

jon@stormcrow.ca

Tom Chudnovsky

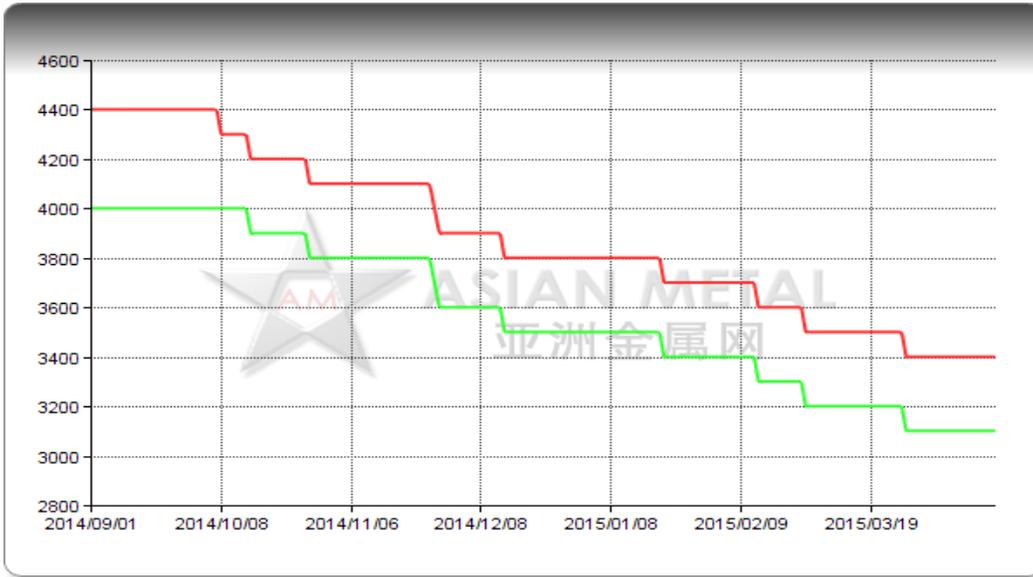
Managing Partner

tom@stormcrow.ca

See the end of report for important disclosures

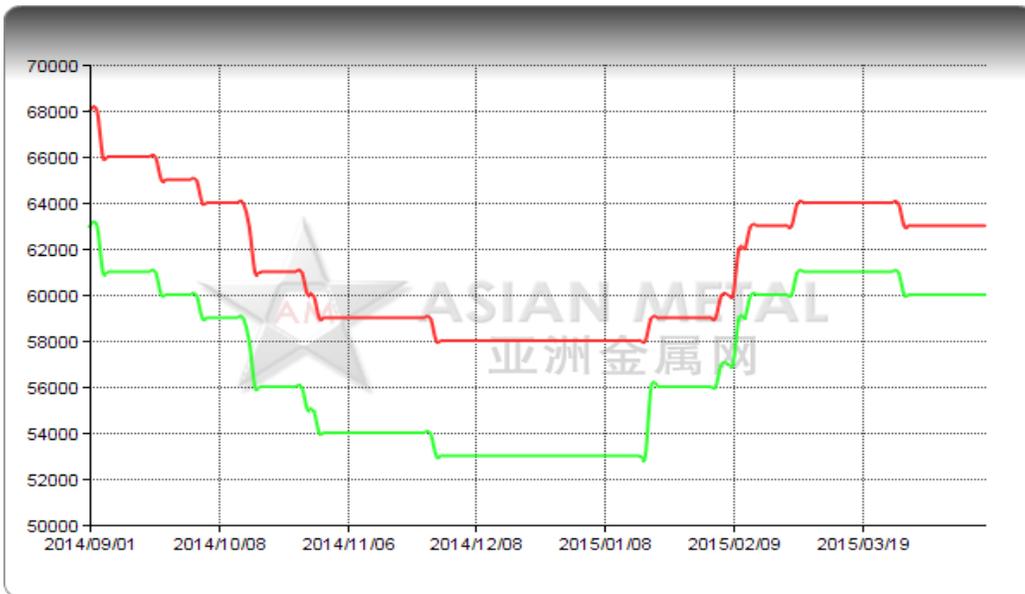


Exhibit 1 – Cerium Oxide, FOB China (US\$/t)



Source: Asian Metal

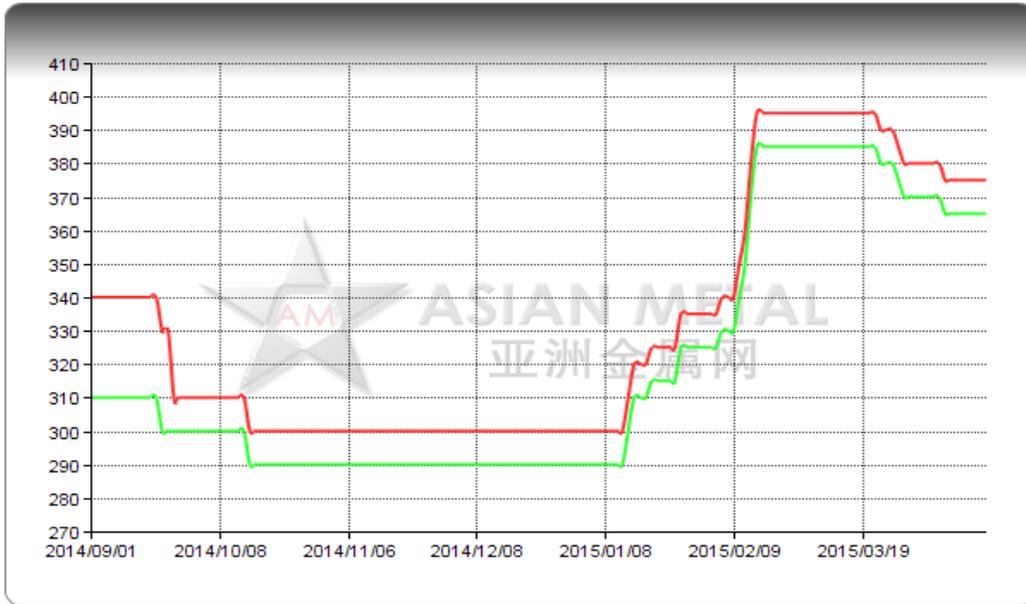
Exhibit 2 – Neodymium Oxide, FOB China (US\$/t)



Source: Asian Metal



Exhibit 3 – Dysprosium Oxide, FOB China (US\$/kg)



Source: Asian Metal

We also cite the recent announcement by Molycorp regarding a supply agreement for neodymium and praseodymium aimed at Siemens direct drive offshore wind turbine generators, through magnets to be manufactured by Shin-Etsu. At least one corporation, in the form of Siemens, recognizes that securing a supply of magnet materials from outside of China makes their own position more secure while removing one possible avenue of supply from their competition. We believe that other companies will come to the same conclusion and seek their own sources of supply, putting rare earth companies that meet the criteria to become strategic suppliers of magnet materials far stronger.

We believe that, because major corporations are seeking strategic supply, they are looking for companies with deposits that are able to produce meaningful quantities of magnet materials for decades from geopolitically stable locations at costs that can weather the worst that the rare earth industry can throw at them. This leaves a short list outside of the current producers Molycorp (MCP-NYSE) and Lynas (LYC-ASX), including Rare Element Resources (REE, RES), Arafura (ARU-ASX) and Quest Rare Metals (QRM-TSX).

Keywords

Important Disclosures

Industry	Graphite, Critical Materials, Critical Metals, Mining, Industrial Minerals	
Relevant Companies	GREAT WESTERN MINERALS – GWG:TSXV ARAFURA RESOURCES – ARU:ASX MOLYCORP – MCP:NYSE FRONTIER RARE EARTHS – FRO:TSX RARE ELEMENT RES'S – RES:TSX UCORE RARE METALS – UCU:TSXV AVALON RARE METALS – AVL:TSX QUEST RARE MINERALS – QRM:TSX	MONTERO MINING – MON:TSXV PEAK RESOURCES – PEK:ASX LYNAS CORP – LYC:ASX NORTHERN MINERALS – NTU:ASX NAMIBIA RARE EARTHS – NRE:TSX HUDSON RESOURCES – HUD:TSXV MATAMEC EXPLO – MAT:TSXV STANS ENERGY CORP – HRE:TSXV
Why do we use keywords?	<i>We feel people who could stand to benefit from the contents of this report, are not solely ones who already follow the specific company or sector discussed herein. As such, we hope to provide this free service to as wide an audience as possible—and keywords help to this end.</i>	

Stormcrow Capital Ltd. (“Stormcrow”) is a financial and technical/scientific consulting firm that provides its clients with some or all of the following services: (i) an assessment of the client’s industry, business plans and operations, market positioning, economic situation and prospects; (ii) certain technical and scientific commentary, analysis and advice that is within the expertise of Stormcrow’s staff; (iii) advice regarding optimization strategies for the client’s business and capital structure; and (iv) opinions regarding the future expected value of the client’s equity securities so as to allow the client to then make capital market, capital budgeting and capital structure plans. Stormcrow does publish research reports for general and regular circulation. Stormcrow is also registered in Canada with the Ontario Securities Commission in the category of Exempt Market Dealer. With the consent of Stormcrow’s client, the client and/or its industry sector may be the subject of an investment or financial research report, newsletter, bulletin or other publication by Stormcrow where such publication is made publicly available at www.stormcrow.ca or elsewhere or is otherwise distributed by Stormcrow. Any such publication is limited to generic, non-tailored advice or opinions and should not be construed as investment advice that is suitable for the reader or recipient. Stormcrow does not offer personalized or tailored investment advice to anyone and its research reports should not be relied upon in making any investment decisions. Rather, investors should speak with their personal financial advisor(s).

Stormcrow intends to provide regular market updates on the affairs of the Company (at Stormcrow’s discretion) and make these updates publicly available at www.stormcrow.ca. Readers who wish to receive notice when such updates become available, should browse to www.stormcrow.ca/research and click the “Subscribe to Research Distributions” link.

All information used in the publication of this report has been compiled from publicly available sources that Stormcrow believes to be reliable. Stormcrow does not guarantee the accuracy or completeness of the information found in this report and Stormcrow may not have undertaken any independent investigation to confirm or verify such information. Opinions contained in this report represent the true opinion of Stormcrow and the author(s) at the time of publication.

Any securities described in this research report may not be eligible for sale in all jurisdictions or to certain categories of investors. This report and the content herein should not be construed by anyone as a solicitation to effect, or attempt to effect, any transaction in a security. This document was prepared and was made available for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned herein. The securities referred to herein should be considered speculative in nature and should be considered to involve a high amount of financial risk where investors may lose all of their investment.

Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. No representation is being made that any investment or security will or is likely to achieve the return or performance estimated herein. There can be sharp differences between expected performance results and the actual results.

Dissemination of Research

This research report is widely available to the public via its website: www.stormcrow.ca/research

Investment Rating Criteria

We do not provide an investment rating, beyond indicating whether the target price exceeds current trading ranges by a reasonable range, indicated as “Positive”, or whether the target price is either below or roughly equivalent to the current trading range, indicated as “Negative”. Each investor has an individual target return in mind, we leave it to the individual investor to determine how our target and the current price fit in their portfolio.