

HOW TO CHOOSE A MOLYBDENUM STOCK

By James Finch



Don Davidson

“What you are really mining is money,” veteran geologist Don Davidson told us during a recent interview about molybdenum. It applies to any mineral, whether gold, silver, copper, uranium or, of course, molybdenum. “All mining, regardless of the commodity, is just really based upon your mining dollars. It’s the value of the particular element and whether it is economic to extract it or not,” he explained.

Despite the shrill forecasts of some analysts who claim we should expect a price correction in base metals, molybdenum is very much in demand. “A lot of people envisioned this flip in the molybdenum price to be a short-term think, but I think with the economies that are rolling in Asia, especially India and China, we are never going to see the old price level again,” Davidson forecast. Another reason why the price of molybdenum could stay high comes as result of BP’s corroded oil pipeline in Alaska. We talked to a few industry insiders who believed BP could have increased the corrosion resistance in their oil pipeline had they added a tiny percentage more of molybdenum to the pipeline. Oil companies are probably going to require more molybdenum to prevent another costly oil spill.

Our discussions with geologists, investors and industry insiders reinforce the notion that the bull market in molybdenum is very much alive and kicking higher. We received an interesting email from Doug Fosbrooke, head of investor relations for Roca Mines, as we were soliciting comments about molybdenum demand. He wrote, “I received a call the other day from a Canadian-based representative of a Chinese moly/steel/metals dealer looking to buy MAX (the name of Roca’s molybdenum mine) concentrates. Even after telling him we had signed an offtake agreement for 100 percent of our production, the party still expressed strong interest in doing business with us. Another Asian dealer, with whom we had been in discussions to provide project financing capital, also contacted us in the past week looking for our product.”

When a small and soon-to-be-producing molybdenum company is pursued by Asian interests, after it has widely announced that next year’s production has been sold in advance, we feel comfortable in expecting a stable, if not higher, molybdenum price. That should bode well for newly arriving molybdenum producers, such as Roca Mines, which hopes to start mining its MAX deposit in Canada in the fourth quarter. But how can an investor safeguard himself from the potential arrival of other, less well-known wanna-be producers?

As we did with uranium and coalbed methane stocks, we compiled a list of “molybdenum-specific” tips for investors. For advice on how to separate the good companies from the bad, we turned to geological and engineering experts to guide us. Both Dr. Nick Carter and Don Davidson have several decades of experience in evaluating molybdenum projects. For example, Blue Pearl’s Yorke-Hardy molybdenum deposit was renamed the Davidson deposit in honor of one our experts. Carter and Davidson are both members of the five-man senior exploration board for Roca Mines, which hopes to find additional molybdenum beneath the existing high-grade MAX deposit in British Columbia.



Dr. Nick Carter



Alaskan oil pipeline

Nine Tips Every Investor Should Know

1. **Keep your eye on the price of molybdenum.** Nick Carter advised, “One of the biggest pitfalls related to molybdenum is price. We’ve seen spikes over the years. The last one was in the 1970s. One of the things you have to watch out for, in terms of molybdenum, is the price. It’s been pretty good the last couple of years and all indications are it’s going to remain, perhaps at these lofty levels.” Huge deposits and good grades are required to withstand lower prices.



2. **Find out the average grade of the molybdenum deposit.** “If any investor were to phone me and want to buy stock in moly mine, my immediate response would be, ‘Well, what is the grade?’” Carter said. “And if the grade isn’t a little bit better than 0.1 percent, and preferably closer to 0.2 percent, I’d say, ‘Well, you had better think about this a little bit.’” Carter explained he liked the MAX deposit because at 2 percent, Roca Mines would yield 40 pounds per ton of molybdenum. At \$20 pound, the gross in situ value of the deposit would be \$800/ton. Mining and operating costs are said to be less than \$100/ton, yielding an operating profit of \$700/ton.

3. **How deep is the molybdenum deposit?** “Usually the deeper you go, the better grade you have to have in order to have material that can be mined for profit,” advised Davidson. “The deeper you go, your expenses can increase. Therefore, you’d generally have to have higher grade at depth.”

4. **Is it underground or open pit mining?** Davidson discussed Adanac’s deposit in British Columbia, “Because it’s an open pit, your mining costs are much lower.” Carter advised on deposits where average grades run low, “If it’s 0.1 percent, it had better be a big deposit and it had better be open pit, too. We’re not talking underground here. With 0.2 percent, you get a little more option, if you can get something that’s reasonably large and with grades approaching 0.2 percent. Cost of production in many open pit mines should be in the \$10 to \$11/pound range.”



examining core

5. **What is the timeline for production?** Some companies plan to begin molybdenum production this year or next. Others are looking a few years out. “The price is here now, but three years from now, when your mine’s up and running, the price may be \$8,” Carter explained. “Maybe you’re not going to be able to cut it if you’ve got an overall molybdenum grade of 0.1 percent or less.” It is safer to evaluate a molybdenum company on a lower metal price than stretching your expectations by appraising it at the top of the market. “If molybdenum can stay north of \$10-12/pound, it should be pretty good times,” Carter noted.

6. **How pure is your moly concentrate?** Carter advised investors find out answers to these questions: “Is there any copper associated with this molybdenum deposit? And if so, how much copper?” Carter warned, “If there’s something like 0.05 or 0.1 percent copper in the molybdenum system, this could be enough to really screw it up in terms of concentrate sales. There’s not enough (copper) to recover to make any money, and you could have serious problems in producing a moly concentrate that’s going to get you top dollar.” In the Kitsault molybdenum mine, there was significant lead content in the moly concentrate. “They took a serious penalty on that and they had to install a leaching plant to get the lead out of the concentrate,” Carter explained.

7. **Does the molybdenum have a contract or offtake agreement with a leading buyer?** “The most telling comment with regards to purity of the moly concentrate is: Does this company have a contract?” Carter pointed out. “If they’ve got a contract, you can be pretty sure the concentrate grade is going to be okay. There are specifications outlined in the agreement.”

8. **What is the infrastructure like?** Carter talked about one company, which he explained was in a remote location, and which he asked we not name. “There’s no electrical power!” he exclaimed. “There’s no hydroelectric, no power lines.” He did talk about how previously, with other mining operations in this area, power was produced by way of diesel-fired generators. “But in today’s world, I don’t think they’ll look at that,” he said. “It’s too expensive.” Big operations will require being on a power grid to function, while smaller ones, such as Roca’s MAX mining operation, can economically operate with diesel generators.



Roca Mines' MAX molybdenum deposit

9. Look for hidden problems in a molybdenum mining and processing operation. “Is the processing facility (mill) located nearby?” asked Davidson. “Or will it be trucked hundreds of kilometers?” Other problems an investor should find out about include: (a) workforce availability, (b) the capital costs and payback on those costs, (c) mine permitting, (d) anti-mining activity in the jurisdiction, (e) financing for the project, (f) access to the deposit (can the deposit be accessed at all?), and (g) the company’s market capitalization in relation to timeline for production. Does the deposit have blue sky potential? The Climax started small and became a world-class molybdenum mine.



Climax molybdenum mine

About the Experts

Dr. N.C. Carter, P.Eng. has extensive experience with BC molybdenum deposits, including; Endako, Alice Arm, Lime Creek (Kitsault), Roundy Creek, Bell Moly, Trout Lake (MAX) and Tidewater deposits. He has reviewed the Climax and Henderson deposits in Colorado and examined the Quartz Hill deposit in southeast Alaska. Dr. Carter is the author of numerous publications on molybdenum and copper porphyry deposits.

Mr. Don Davidson, M.A.Sc. has spent much of his career in Western Canada and the United States with Climax Molybdenum Company based at their operations at the Climax Molybdenum Mine in Colorado. He was Resident Geologist to their major underground exploration project at Yorke Hardy (now the Davidson deposit) in Smithers, BC and his experience has included most phases of detailed and regional geology with direct molybdenum experience at Climax Colorado, Yorke Hardy, Kitsault and Ruby Creek, BC.

Websites and Trading Symbols of companies mentioned in this report:		
Adnac Moly Corp	TSX: AUA	www.adnacmoly.com
Blue Pearl	TSX: BLE	www.bluepearl.ca
Roca Mines	TSX: ROK	www.rocamines.com

StockInterview.com is an independent information website with the goal of empowering investors. StockInterview.com publishes securities reports, news and comments of individuals and organizations whose opinions are deemed of interest to our readers. StockInterview.com does not itself endorse or guarantee the accuracy or reliability of any information, statements or opinions expressed by these individuals or organizations. StockInterview.com does not provide an analysis of a company’s financial position. Information on this website does not constitute a solicitation or offer to buy or sell securities. StockInterview.com has not independently confirmed the accuracy, correctness or truthfulness of statements made by company officials, analysts or outside spokespeople. StockInterview.com employees will never invest or trade securities of companies featured on this website. StockInterview.com will never accept securities as an advertising fee. StockInterview.com presents information from company officials and freelance writers, which is believed to be reliable, but its accuracy can not be guaranteed. Past Performance does not guarantee future results. Companies who have paid an advertising fee to be featured on the StockInterview.com website, are listed on the disclaimer page, see <http://www.stockinterview.com/disclaimer.html> for details. Any comments made by company officials, outside spokespeople, or analysts should be directly verified with the company by the reader. Information about publicly listed companies and other investor resources can be found at the Securities and Exchange Commission website: www.sec.gov. Investing in securities is speculative and carries risk. Investments in any security should be made only after consulting with your registered investment advisor, and especially after reviewing company financial statements and company news releases. Only sophisticated investors should consider investments in micro-capitalized companies as an investment strategy and only as a highly speculative portion of his/her investment portfolio. All investors are urged to review company filings with the United States Securities and Exchange Commission, and pay special attention to any and all RISK FACTORS announced by the company in its SEC filings.

FORWARD LOOKING STATEMENTS:

Certain information contained on the StockInterview.com website may contain “forward looking statements” made by the featured company, its management, employees or those with alliances to the company and information within the meaning of Section 27 of the Securities Act of 1993 and Section 21E of the Securities Exchange Act of 1934, including any statement regarding expected continual growth of the featured company. In accordance with safe harbor provisions of the Private Securities Litigation Reform Act of 1995, that statements contained herein that look forward in time, which include other than historical information, involve risks and uncertainties that may effect actual results of operations. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: risks inherent in restrictions of foreign ownership; uncertainties relating to carrying on business in foreign countries; the Company’s history of operating losses and uncertainty of future profitability; dependence upon joint venture partners; the size and growth of the market for the company’s products; the company’s ability to fund its capital requirements in the near term and in the long term; pricing pressures, etc. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, goals, assumptions or future events or performance may be forward looking statements. Forward looking statements are based on expectations, estimates and projections at the time the statements are made that involve a number of risks and uncertainties which could cause actual results or events to differ materially from those presently anticipated. Forward looking statements may be identified through the use of words such as expects, will, anticipates, estimates, believes, or by statements indicating certain actions may, could, should or might occur. Investors should be cautioned that the Company may be unable to continue its projected growth rate, may be unable to fully implement its business strategies, or be unable to successfully integrate the operations of its various acquisitions. Investors should be further cautioned that any forward-looking statements made by the Company are not guarantees of future performance.