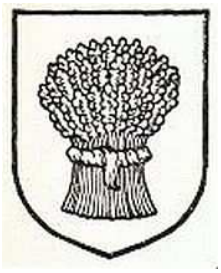
Monday, April 18, 2011



HALLGARTEN & COMPANY

Initiating Coverage

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UCore (UCU.v, UURAF:OTCQX)

Strategy: Long

A REE Snack for a Major

Key Metrics	
Price (CAD)	$ 0.84
12-Month Target Price (CAD)	$ 1.30
Upside to Target	55%
12mth hi-low CAD	$0.20 -1.28
Market Cap (CAD mn)	$ 112.8
Shares Outstanding (mns)	134.3
Fully Diluted (mns)	174.5

UCore

A REE Snack for a Major

- + UCore has one of the most interesting Rare Earth properties in the space with a high ratio of Heavy Rare Earths
- + The Bokan Mountain deposit has easy access to shipping, something very few alternative deposits have
- + Politically the company has strong support in the form of Senator Murkowski (AS:Ind), who is a major sponsor of legislation to reactivate the US Rare Earth industry
- + The maiden NI 43-101 report on the deposit seems to signal a viable resource for exploitation
- + The company is well-funded with $12mn in cash after a recent financing
- + Management is open to overtures from potential acquirers
- ✘ The Rare Earth boom is a wild ride, which could still end in tears
- ✘ The company does not project much confidence in its willingness to build a mine should an acquirer not appear on the scene.

Rare Earths – the buzz goes on

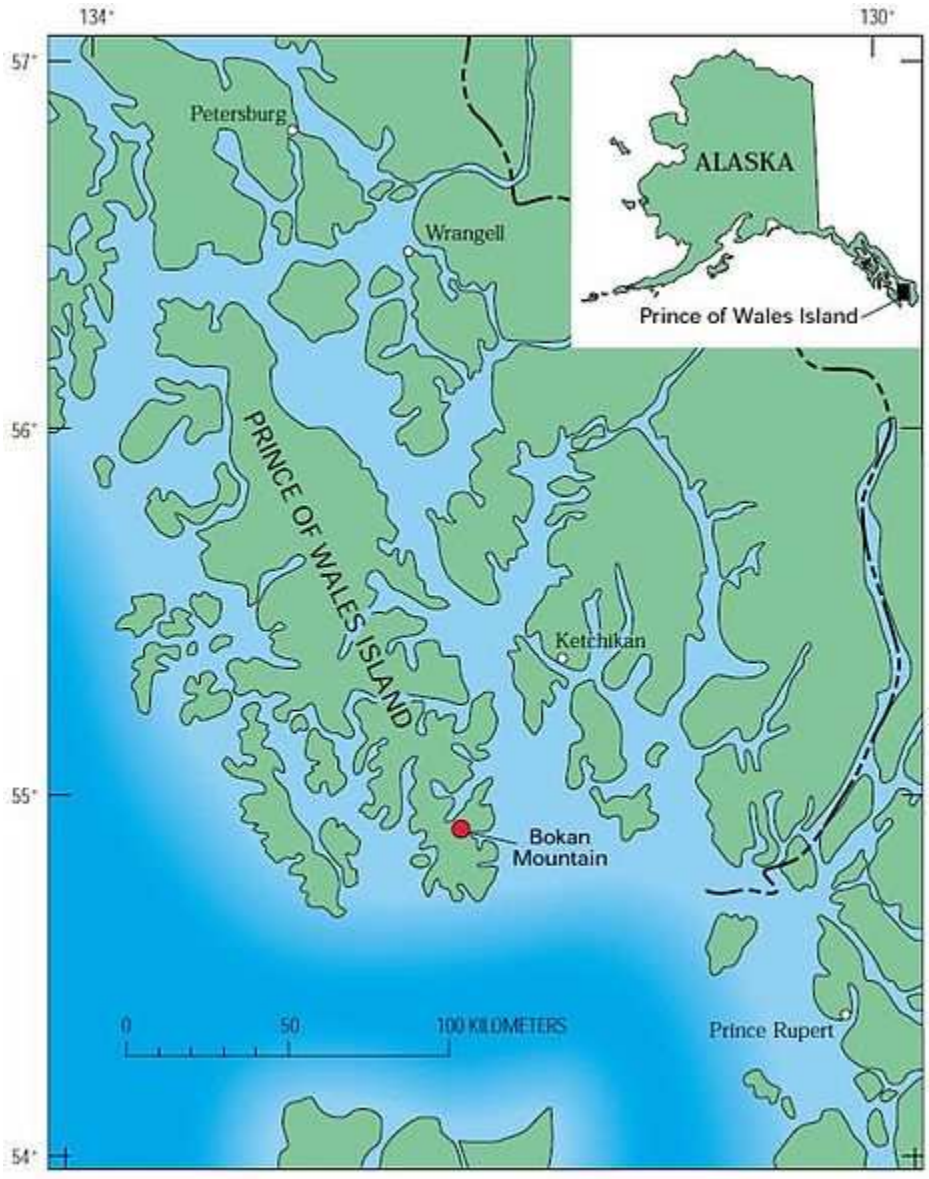
The Rare Earths space has had more revivals than the Sound of Music. Over the last 18 months this "go-go" corner of the mining world has had it's ups and downs and several of the downtrends tempted ourselves and others to call an end to the boomlet. However the soufflé has always bounced back and investors have poured back in. It does not detract that the Chinese have provided a consistent stream of bad (which means good) news on the intentions and machinations in the Rare Earth markets.

The development that many have awaited and of which there is still no sign is consolidation via M&A. The closest we have come to this was the acquisition by Molycorp (MCP) of the Silmet refinery in Estonia. UCore has been one of the names perpetually mentioned as a potential takeover target and the company has signaled it is receptive to overtures. Thus far the market has not been delivered a deal on this score. Thus we shall review UCore here and its prospects for being acquired or going it alone.

Refocusing the Spotlight on the Same Property

Ucore Rare Metals is a former uranium play (hence the name) that has morphed, like so many others, into a Rare Earth play. The difference in this case it that the uranium company already had the REE asset and the transformation involve merely refocusing on another part of its main property. The company has as its main asset the Bokan Mountain Rare Earth project, in the Alaskan Panhandle which was the site of a former high grade producing uranium mine, with an estimated untapped resource of 11 million + lbs of U_3O_8, and a Rare Earth Elements (REE) resource that is estimated to be the largest combined heavy and light REE deposit within the United States (all estimates based on USGS data; non 43-101 compliant). The company feels that Bokan has near term production potential and as it is located in an

area of Alaska specifically set aside for natural resource development, with no residential or indigenous populations in proximity.



Bokan Mountain

The Bokan–Dotson Ridge project is located on Prince of Wales Island, some 60 km southwest of Ketchikan, Alaska and 140 km northwest of Prince Rupert, British Columbia and has direct ocean access to the western seaboard and the Pacific Rim. The property is located in an area reserved for sustainable resource development with an existing road network providing access to the main target areas. The deposit is accessible year-round from ice-free tidewater on either the West Arm of Kendrick Bay, to the southeast, or the South Arm of Moira Sound, to the northwest. A barge-loading dock and camp facility is located near the head of the West Arm of Kendrick Bay where a maintained mine road and flagged trails lead to many of the prospects. From the South Arm of Moira Sound, prospects are accessible by boat

and foot. The prospect area extends over a vertical relief of 2,500 ft, from tidewater to the summit of Bokan Mountain. Lower elevations support a dense rain forest of spruce, cedar, and hemlock trees. Flatter areas often contain muskeg or ponds. Higher elevations, generally underlain by granite, are sparsely vegetated and characterized by bare, rocky slopes. A tarn occupies a west-facing cirque on the mountain's western side. Principal creeks and many of the nearby inlets, sounds, and bays follow U-shaped valleys that were once sites of valley and tidewater glaciers.

History

Radioactivity was first detected at Bokan Mountain in May 1955, during an airborne radiometric survey. High-grade uranium mineralization was subsequently confirmed by ground prospecting and claims were staked. Open pit mining of the Ross-Adams ore body by Climax Molybdenum commenced in July 1957. Between then and 1971, a total of 87,331 tonnes of ore with a weighted average of 0.76% U were produced during several periods of mining. Between 1959 and 1964 the operator was Standard Metals and in 1971 Newmont Exploration ran the mining efforts.

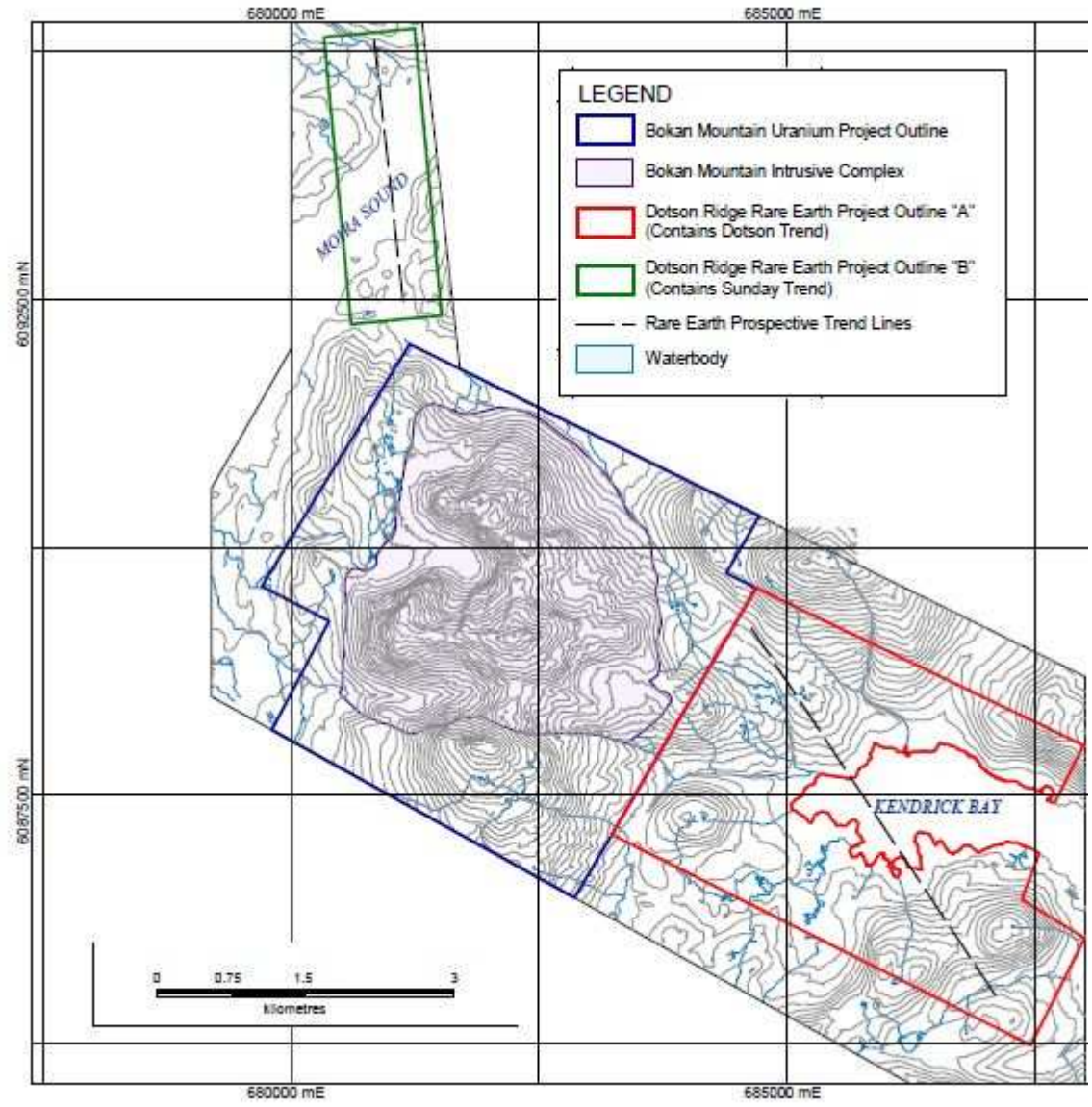
Although uranium has been the only commodity produced thus far, the presence of other commodities in the Ross-Adams ore and at several other prospects in the area was soon recognized. In 1959 and again in 1963, analyses of samples of Ross-Adams ore showed elevated values of columbium, REE, thorium, and zirconium, in addition to uranium.

Geology

Bokan Mountain is underlain by a multiple phase peralkaline granite intrusion of Jurassic age. The intrusion is crudely circular in outcrop, covering an area of approximately 3.5 sq miles over a relief of 2,200 ft, and has sharp country rock contacts that dip outward. Academics have interpreted the Bokan Mountain granite as a ring-dike complex consisting of riebeckite (Nla-bearing amphibole) and aegirine (Na-bearing pyroxene) bearing granite, surrounded in turn by aegirine granite, aegirine granite porphyry, and finally by a border zone pegmatite. Syenite occurs at depth and biotite aplite occurs on the south and northern perimeter. Other scientists have interpreted the granite as the apex of a shallowly eroded, large composite intrusion with great textural heterogeneity.

REE mineralization occurs in a well-demarcated vein system related to a Mesozoic peralkaline granitic complex. All of the rocks near Bokan Mountain are cut by dikes of a variety of compositions including andesite, dacite, basalt, lamprophyre, quartz monzonite, rhyolite, aplite, and quartz latite. Some of the more felsic dikes are radioactive, containing large amounts of accessory columbium, REE, thorium, and zirconium minerals, and are likely genetically related to the Bokan Mountain peralkaline granite.

Vein-like mineralized dikes contain the majority of columbium, REE, beryllium, tantalum, yttrium, and zirconium resources at Bokan Mountain. In excess of 35,000 ft of strike length consisting of five systems of parallel mineralized dikes have been identified. Approximately 8,000 ft of this strike length is at the I and L and Dotson prospects. Most of the dikes are open-ended and extend under vegetative or glacial till cover or under the sea. The dikes dip steeply and invariably trend west-northwest to north-northwest, forming a broad mile-wide zone radiating outward into country rock northwest and southeast from the Bokan Mountain granite.



From 1984 through 1987, the Bureau of Mines investigated multiple largely unexplored zones located to the north, south and west of the Bokan Intrusive Complex. They made new discoveries of columbium, REE, uranium, zirconium, and other metals associated with the multi-phased peralkaline granite at Bokan Mountain, southeastern Alaska. The resulting 1989 report (Warner & Barker, USBM OFR 33-89) arising from this work estimated indicated and inferred resources (obviously not NI43-101 compliant) for those prospects containing significant tonnage and grade. A total of approximately 96.2mn lbs Cb2O5 (43% of the tonnage at a grade exceeding 0.125% Cb2O5), and 11.8mn lbs U308, 27.9mn lbs ThO2, 133mn lbs Y203 (notably not counting Yttrium as a REE), 637.6mn lbs ZrO2, and 241mn lbs REO were estimated to be contained within nine deposits totaling 37.8 million tons (at least 80% of resource tonnage also exceeding 0.5% Y203 + REO). Generally, half of the REO content was composed of the heavy Yttrium subgroup. Several deposits also contained beryllium and tantalum; 2.1mn lbs of Ta2O5 and 8.9mn lbs of BeO were estimated. This proliferation of strategic metals is chunky by any standard.

The next significant report was in early March 2011 when the company announced the first NI 43-101 compliant independent resource estimate for the Bokan Mountain project. The resource estimate was prepared by Aurora Geosciences of Yellowknife, NWT who recommend that the deposit merits additional drilling, metallurgical research and economic investigation.

Mineral resources were modeled by Aurora and reported at seven different total rare earth oxide cut-off grades, with a base-case resource estimated using a TREO cut-off of 0.5%. At this cut-off, Bokan hosts an Inferred Mineral Resource of 3.7 million tonnes grading 0.75% TREO, with 39% of the TREO being the higher value HREO.

TREO Cut-off %	Tonnes	TREO	HREO/TREO	Contained TREO (lbs)
0.8	1,021,000	1.054	36.80%	23,718,000
0.7	1,549,000	0.951	37.70%	32,467,000
0.6	2,489,000	0.834	39.60%	45,751,000
0.5	3,669,000	0.746	38.60%	60,325,000
0.4	5,276,000	0.654	40.00%	76,049,000
0.3	6,126,000	0.613	40.80%	82,765,000
0.2	6,702,000	0.58	41.30%	85,673,000

Economics

According to the company (and we would tend to concur) the Bokan-Dotson Ridge project is the only Rare Earth project currently documented worldwide which is situated on immediate deep-water access, which it considers a significant advantage in expediting mine production and limiting the capital costs associated with mine construction.

Bokan Mountain demonstrates a range of features that may facilitate near term development:

- Excellent infrastructure, with immediate deepwater access in close proximity to rail heads and shipping routes.
- Alaska is a mining friendly jurisdiction with a history of successful mine permitting. Alaska has several large mines, with a skilled local work force and mining related contractors (though these are not necessarily in close proximity to UCore's property.
- An unusually high proportion of high value heavy rare earth oxides (HREO). This Mineral Resource estimate shows HREO/TREO consistently around 40%.
- A notably high proportion of Dysprosium, Terbium and Yttrium; rare earth elements in scarce supply and strong demand.

In turn, the greater Bokan area remains highly prospective for progressive ongoing exploration with More than 30 known REE occurrences which will be further evaluated in 2011 and beyond.

In 1996, a U.S. Bureau of Mines study (Green & Harbuck) concluded that: "The Bokan Mountain area on Prince of Wales Island, AK, contains vast quantities of heavy rare earth minerals." The report went on to postulate that the liberation of yttrium, considered a proxy for the prospective liberation of all HREE's, is highly amenable to metallurgical cracking methodologies.

Rare Earths that obscure object of desire

Since the Chinese shouted “Fire” in the cinema early in 2009 by banning exports (or at least talking of doing so), the mining space has been in a ferment trying to get its brain around elements that they had not heard of since high school chemistry (and seemingly not in some Schools of Mines). The REE fervour swept in upon investors who were still grappling with the enthusiasm that had been generated around lithium. Indeed such was the confusion and blending of different nascent “supply crises” in investors’ minds that we met with asset managers who were referring to lithium as a REE because no-one had differentiated the two totally different stories for them.

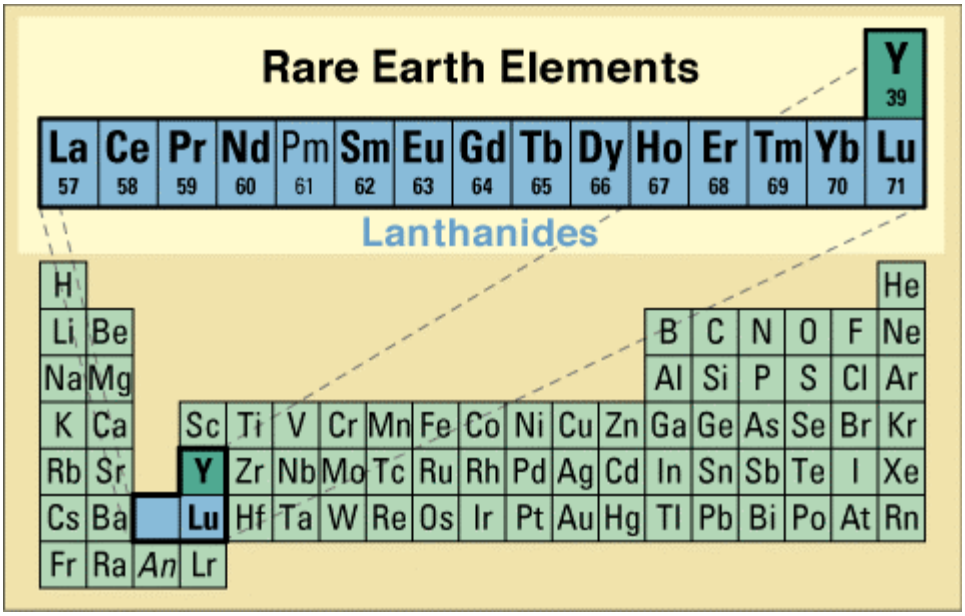
There were a number of REE plays already out there and they represented a sub-sector for the truly well-informed or daring. Suddenly the searchlight zeroed on the extant names and the brilliant marketing efforts of Avalon Rare Metals paid off in a soaring price for that stock but in a more generalized feeling that something was going on and they acted as a conduit of information. The consideration that their mine prospect was mainly weighted towards the Heavy Rare Earths (HREE) meant that this sub-group came to the fore of investor’s attention, maybe inordinately so.

Enthusiasm amongst investors was admirable, but rather indiscriminate. The word “technology” has a special resonance for US investors and they charged at the REE space without really knowing what the technological issues were. Europium is being touted as something new when in fact it has been used in screens since colour television first debuted for the mass market. Avalon initially stirred up the excitement with talk of hybrid auto engine usage but investors then failed to grasp that it was Neodymium and Praseodymium, two of the Light Rare Earths (LREE) that are used in the Toyota Prius and not the HREE that Avalon was weighted towards.

Orientation on REE

The Wikipedia article on REE became a heavily trafficked site in mid-2009 when the investment community first got wind of China’s shutdown of REE exports. REE was definitely not a well-known subject even in geological circles. Most mineral testing didn’t bother to measure these grades, except in the case of some uranium operators who saw it as a potential by-product.

The Rare Earth elements (or rare earth metals) are a collection of seventeen chemical elements in the periodic table, namely Scandium, Yttrium, and the fifteen lanthanoids. Scandium and Yttrium are considered rare earths in some circles since they tend to occur in the same ore deposits as the lanthanoids and exhibit similar chemical properties.



The term "rare earth" arises from the rare earth minerals from which they were first isolated, which were uncommon oxide-type minerals (earths) found in Gadolinite extracted from one mine in the village of Ytterby, Sweden. The first REE were identified in the late 18th century. The expansion of science and enquiry during the Industrial Revolution filled out the range of metals that were categorized as Rarre Earths.

In general the properties of the group are:

- Silvery-white metals that tarnish when exposed to air, thereby forming their oxides
- Burns easily in air; at elevated temperatures many rare earths ignite and burn vigorously
- Relatively soft metals; hardness increases with higher atomic numbers
- Many REE compounds fluoresce strongly under ultraviolet light
- Reacts with water to liberate hydrogen gas, slowly in cold/quickly upon heating
- Reacts with dilute acid to release hydrogen gas rapidly at room temperature
- Most REE compounds are strongly paramagnetic
- High melting and boiling points

The table below shows the metals and their prime applications at the current time.

	Symbol	Name	Usage
57	La	Lanthanum	High refractive index glass, flint, hydrogen storage, battery-electrode, camera lens
58	Ce	Cerium	chemical oxidising agent, polishing powder, yellow colors in glass and ceramics, catalyst for Self-cleaning oven etc.
59	Pr	Praseodymium	Rare-earth magnets, laser, green colors in glass and ceramics, flint
60	Nd	Neodymium	Rare-earth magnets, laser, violet colors in glass and ceramics, ceramic capacitor

61	Pm	Promethium	Nuclear battery
62	Sm	Samarium	Rare-earth magnets, Laser, neutron capture, maser
63	Eu	Europium	Red and blue phosphors, laser, mercury-vapor lamp
64	Gd	Gadolinium	Rare-earth magnets, high refractive index glass or garnets, laser, x-ray tube, computer memory, neutron capture
65	Tb	Terbium	Green phosphors, laser, fluorescent lamp
66	Dy	Dysprosium	Rare-earth magnets, laser,
67	Ho	Holmium	Laser
68	Er	Erbium	Laser, vanadium steel
69	Tm	Thulium	
70	Yb	Ytterbium	Infrared Laser, chemical reducing agent
71	Lu	Lutetium	

The Light Rare Earths have been largely referred to as those from Lanthanum to Samarium, with the Heavy Rare Earths being the rest. However, we have seen Europium classified as a LREE. This reminds us of two shoppers in a tug of war over a sweater they want to buy in a bargain basement sale. Everyone wants Eu in their camp due to its “big-ticket” price irrespective of whether it ever makes up a meaningful part of a revenue stream from a REE mine.

The principal sources of rare earth elements are the minerals bastnäsite, monazite, and loparite and the lateritic ion-adsorption clays. Despite their high relative abundance, rare earth minerals are more difficult to mine and extract than equivalent sources of transition metals (due in part to their similar chemical properties), making the rare earth elements relatively expensive. Their industrial use was very limited until efficient separation techniques were developed, such as ion exchange, fractional crystallization and liquid-liquid extraction during the late 1950s and early 1960s.

Or doesn’t know…

Everything is a matter of perspective but to some degree this has been left behind in the rush. The sheer plethora of novel terms and elements in the REE space might even be designed to aid snakeoil merchants ply their trade. However, even in the most truthful of commentators it can be hard to talk of the specifics without losing sight of the big picture.

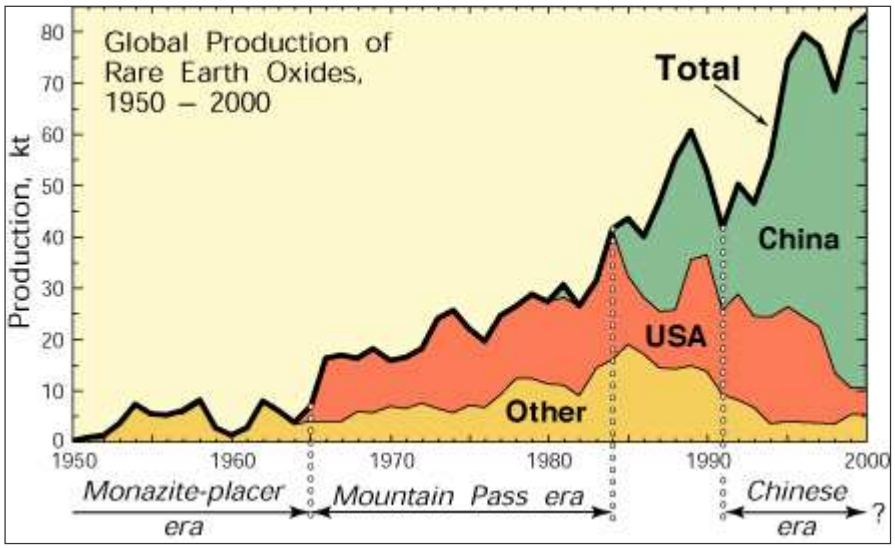
We have mentioned that Neodymium and Praseodymium, two of the Light Rare Earths (LREE), are used in the Toyota Prius. Indeed to put it in perspective around two kilos of these metals are used in the magnets in the average Prius engine but at $160 per kilo one is only talking about US$320 for each auto that may be selling for US$28,000 each. That is 1.5% of the cost of the vehicle. Europium at US$830 per kg sounded like the new gold to uninformed investors. But then again kilos and ounces are quite different things also.

The same is true of the Dysprosium on of the HREE. Neodymium-iron-boron magnets, which are used in hybrid autos can have up to 6% of the Neodymium substituted with Dysprosium to raise the coercivity for demanding applications such as drive motors for hybrid electric vehicles. Such substitution would require up to 100 grams of dysprosium per hybrid car produced. However global production is a mere 100 tonnes per annum. Based on Toyota's projected two million units per year, the use of dysprosium in

applications such as this would quickly exhaust the available supply of the metal. But despite this scarcity the price is only around $520 per kg in recent times.

Evolution of dominance

The chart below pretty much tells the history of REE mining in recent times. As the REE group did not have much commercial application until recent decades the mining was sporadic and scarcely profitable. From the late 19th century until the rise of the US as a producer the main source of those REE in greatest use was Brazil where monazite sands were the source from which it was extracted. To show how low-tech REE applications were for a long time the main use of the elements was employing them mainly in refractory materials of which the main one was ceramic "candles/mantles" for old-fashioned gas heating devices. Most of the other REE had little work done on them until the rising wave of new technologies started to appear in recent decades.



Source: USGS

The era of US dominance is described as the Mountain Pass era that pretty much sums up the total dominance that this mine had over US production. While the chart shows this mine starting up in the mid-1960s, it actually came into production in 1952. It is clear that it also made up to 40% of global production during that period. It was owned for much of that time by Union Oil Co (later Unocal) and this eventually was taken over by Chevron.

The eclipse began from the mid-1980s when China effectively undercut the prices of most other producers and sent production spiraling down around the world to the current state of affairs. The important Steenkampskraal mine in South Africa was shut down decades ago and the Mountain Pass operation was mothballed in 2002. Ex-CIS mines mainly in Kyrgyzistan, Estonia and the Kola Peninsula in Russia shut after the breakdown of the old Soviet empire. The ongoing non-Chinese output was from sands in India and some desultory production from the Brazilian national nuclear authority. At times in the more distant past, Sweden and Finland had been small producers. Most reports put the Chinese market share in REE at 93% at the current time but we have seen some reports of 97%.

Home Truths

The already well-documented fact is that Rare Earths aren't rare, or at least Cerium the main component of the Lathanide Series is not rare. With the exception of the highly-unstable promethium, rare earth elements are found in relatively high concentrations in the earth's crust, with cerium being the 25th most abundant element in the earth's crust at 68 parts per million. In fact there is more Cerium in the Earth's crust than there is copper. We would concede though that it does not appear in the same concentrations as copper does.

Once one gets beyond the basic reality check comes the more nuanced complications of REE. Chief amongst these are that:

- Heavy rare earths (HREE) may attract a better price than most of the other metals in the group but they appear in such small quantities that the amount extracted is very small for the amount mined.
- The real business is in the downstream processing
- Many of the new up-and-comers in the industry in the REE space have uranium and/or thorium to deal with in their mix
- Many of the projects are years away from production

Dealing with each of these issues we would note that the HREE issue is a serious one. Even the best of HREE prospects consist of deposits where the sexiest HREE (Europium and Lutetium) appear in such small quantities (measured in double digit parts per million – ppm) in the metal mix that the amount extracted is very small for the amount mined. Obviously processing costs are much higher per ounce of Europium than per ounce of Cerium. Some marketers have led with their price tables and left commercial reality behind. They see a flat-screen TV and start salivating because they claim that Europium is a component and that it sells currently for $830 per kg Indubitably true, but the Eu input to any television is minimal, or else recycling of old cathode ray tubes for their Eu content would be a viable enterprise.

Thus HREE prices are good but the grades, even in the best of prospects, are so low for the highest priced REE elements that no-one could even vaguely hope to start a mine based upon Europium grades alone. It is the total mix that matters.

This leads us then to the processing. Interestingly the miners (or wannabes) would argue that the prices are going much higher. If they indeed go much higher then some of the mining plans that we hear would seem to not be predicated upon that fact. At the moment ore is mined and concentrated at or near the mines but the biggest value-added in the process is at the quasi-manufacturing phase. This is a phase which Neometals, Molycorp (in a fashion) and Great Western are exposed to but which the other explorers are not. Most of the budgets we have seen talk of US$200mn plus CAPEX costs for the concentrating and separating process, largely at the mine. This leaves us wondering whether if prices go up significantly then miners might be best to get their mines going and sell ore to on-processors who would bear (or have borne already) the heaviest part of the capex.

A lot of the current stories in the REE space are reinflated uranium stories. REE commonly appear with uranium and in excellent grades. It even more commonly appears with thorium, a much more lightly

radioactive element. The problem is one has to justify the uranium mine on its own merits before the REE will ever come out of the ground. With many other metals one can send by-products to the tailings pile if they do not merit further processing but one cannot do this with uranium. When one looks at an open cut or even underground uranium mine (in contrast to ISL technologies) then one must take the mine planning and building timeframe and then double or treble it. Then one must take the costs of the EIA for a normal mine and multiply it by a factor of five times. Then one must consider NIMBY factors and these can be a real deal killer. It is said that the reason the Mountain Pass mine of Molycorp has not been revived earlier was because of the presence of thorium in the ore. This was not an issue for many decades but has now started to raise concerns. Beware uranium (and/or thorium) will probably not be a barrier to exploitation of concurrent REE in emerging economies, but could well stymie mine plans in areas near populations or watersheds in Western countries.

The race in REE will not go to the best grades it will go to the mines that are up and running first. A few sizeable mines going around the world would make the going tougher for latecomers. Some of the current players may be latecomers if they do not accelerate their mine-build plans.

Broadening REE Supply Sources

The thing that is quite atypical of REE to the usual metals story and the big phenomenon of the moment is not the eclipse of China but rather the “normalization” of the REE industry. By this we mean for a long time Brazil dominated production of what was a rather lowly valued, obscure and limited production/limited demand mining activity. Then the US dominated the market with 40% of the market and the rest being mainly byproducts of thorium or uranium mining. Then China came to an almost total dominance of the space. Through most of the history of REE the price has not been a major consideration. It has been one of the few “metals” without booms nor busts just “fade ins” and “fade outs” of producing nations. Moreover we would also note that in both the US and China “eras” it was one mine in either country that provided the bulk of supplies. The only parallel might be Brazil’s dominance of Niobium at the current time.

Now the future holds the prospect that there will not only be quite a few mines with 1-10% market share but that these will be geographically scattered all around the world. The only place where REE action is not being seen yet is in South America. This is ironical considering that Brazil is where industrial scale production really began. In any case, in five years from now, we should have 40-50% of world production emanating from Australia, Canada, the US and South Africa. Then there is the possibility that other exotic locales like Kyrgyzistan, Sweden, Greenland and Argentina might be in the mix also.

It is somewhat ironic that we are hearing of all these new deposits around the globe and hearing nothing of new sites in China. One might recall that China was a significant spoiler in the global zinc market for years and has now ended up as a net importer of zinc with production costs internally that are higher than the average of the major Western World producers.

The Other Properties

The company’s other properties are all legacy Uranium prospects from the company’s previous incarnation. These are in Newfoundland, Nunavut and at Elliott Lake in Ontario. Varying degrees of work were undertaken on these sites during the uranium renaissance of 2007-8. These might ultimately be

spun-out in a Newco should Ucore receive a bid and uranium still be showing signs of life (though not a guaranteed outcome) at that time.

Predators

Without being overly imaginative one can conjure up the names of several potential acquirers for Ucore within the REE space. Outside buyers are unlikely but one could not discount a Japanese trading, for instance being desirous of taking a strategic minority stake. On potential buyers we would muse on the following names:

- Molycorp (MCP)
- Rare Element Resources (REE)
- Avalon Rare Metals (AVL)

Other parties would either not have the size or inclination or commercial logic to justify a transaction.

Molycorp (MCP): It is hard to divine whether this company wants to be seen as a manufacturing business or a mining enterprise. It should make up its mind as the market is valuing it like the latter but its recent purchase of the Silmet A/S plant in Estonia panders to the former. The company has a need (though seemingly unrecognized by itself) to get itself a Heavy Rare Earth exposure and rather fast. The easiest fix is to take over Ucore and tout the merged company's HREE component as its own. MCP certainly has the money to get Bokan Mountain moving swiftly into production thus stealing the thunder of other players who might have ambitions to produce HREE in the relatively near-term. Ucore is a small-change transaction for the behemoth (in market cap if not in production or revenues) Molycorp.

Rare Element Resources (RES.v) might do well to use its own sizeable market cap to bolster its HREE street cred and thwart MCP stealing the Emperor's Old Clothes. RES does not have sufficient cash to do such a transaction in anything except all-stock terms. It does not need Bokan but as any good Monopoly player knows the temptation is to remove properties from the board that might advantage a competitor in the future. MCP buying UCU would remove the likelihood that MCP eventually buys RES, which would be a big downer for those looking for this eventuality. Thus REE grabbing UCU reduces MCP's options to being almost forced to acquire an expanded RES.

Avalon Rare Metals (AVL.to). This company desperately needs a story away from its Thor Lake project. Bokan Mountain is eminently more doable as a production story, counters the thinnish HREE profile at Thor Lake and gets Avalon a foothold in the US so that it can somehow feed at the trough of the REStart Act or whatever piece of legislative enthusiasm the US Congress comes up with. Again, like RES, AVL does not have the cash to indulge in anything but an all-stock offer.

Management

The company's President and CEO is James McKenzie. He is described by the company as an entrepreneur with over 25 years experience managing, owning and operating companies within the Canadian private and public equity sectors. From 2002 until 2006, he was the President and principal shareholder of Worldmax Inc., Canada's largest independent partner of MTS Allstream Corp. Between 1999 and 2002 he variously served as Vice President, President and CEO of a wholly owned subsidiary of

AT&T Canada and US-based AT&T Corp, helming a voice and data network spanning from Vancouver to Halifax. From 1988 until 1999, he was the President and sole shareholder of Mediapro Inc, a voice and data enterprise with offices in major centres Canada-wide, until the company was bought by AT&T Canada in early 2000. Between 1992 and 1998, he was a director of Tagcom Canada Inc, an interconnect provisioner operating across western Canada. He has spearheaded multiple business and technical initiatives for major organizations such as the Dept. of National Defense (DND/MARCOM), Lucent Canada, BCE and AT&T Global Solutions. Mr. McKenzie served as Chair of the 2008 Canadian Uranium Symposium under the direction of The Canadian Institute. He holds a Bachelor of Commerce degree from Dalhousie University in Halifax.

The geological *gravitas* on the board is provided by Dr Jaroslav Dostal, who serves as a director. He is Professor Emeritus of Geology at Saint Mary's University in Halifax. He has over 35 years experience in geology, ore deposit studies, and geochemistry. He has published more than 250 scientific papers, and is a widely acknowledged expert on uranium mineralization in granitoids and volcanic rocks and mobility of uranium in metamorphic and volcanic rocks. He is the recipient of the 2005 Career Achievement Award of the Volcanology and Igneous Petrology Division of the Geological Association of Canada and the 2007 Gesner Medal for Distinguished Scientist of the Atlantic Geoscience Society. He is also Honorary Professor of Mongolian University of Science and Technology in Ulaanbaatar.

Another director is Jos De Smedt. He is the Chief Financial Officer of Radar Acquisitions Corp., a publicly-traded coal resource exploration and development company based in Calgary, Alberta. He has more than 20 years experience in the finance/accounting/auditing and management consulting industry. Starting as a Chartered Accountant in Belgium with increasing responsibilities for major publicly traded companies, he became a partner with PricewaterhouseCoopers Canada in 1998 working in their Canadian and Belgian offices. In this capacity, he held senior manager responsibilities for major audit engagements and financial due diligence assignments. He holds a Bachelor of Commerce & Finance degree from VLEKHO University in Brussels, Belgium.

The Advisory Board

In the world of Rare Earth stocks the advisory board has taken on an uncommon importance with trophy hunting to collect together the biggest pool of "gurus" that one can muster. UCore would have appeared to trump the other players with the equivalent of a Royal Flush. The line-up of this "dream-team" is:

- Jim Barker, Bokan project geologist Alaska's Mr. Rare Earth; ex USGS - USBM
- Dr. James Clark, Consultant REE specialist & exploration geologist
- Dr. Jaroslav Dostal, Board member, Prof. Emeritus Saint Mary's University; recipient of 2009 USGS Research Grant to study Rare Earths at Bokan - USGS has been tasked with researching mineral deposits of economic importance to the US.
- Harmen Keyser, VP Project Development P.Geo 30 Years Experience in Exploration Geology
- Jack Lifton, Consultant Leading authority on global metals market
- Dr. Anthony Mariano, Consultant Leading authority on Rare Earths (Molycorp, Neo Materials)

Finances

There is not much to say on the earnings model for the company except that it has a rather low burn rate and thus the $12mn in cash that it currently has should last it many years at current expenditures. The table below shows the financial picture in recent months.

UCore

CAD$ mns	3Q10	2Q10	1Q10	FY09
Revenue	0	0		0
Selling/General/Admin. Expenses	0.45	0.59	0.43	1.36
Research & Development	-	-		-
Depreciation/Amortization	0.01	0.01		0.03
Unusual Expense (Income)	0	0		-0.02
Other Operating Expenses, Total	-	-		-
Total Operating Expense	0.45	0.6	0.43	1.37
Operating Income	-0.45	-0.6	-0.43	-1.37
Interest Income(Expense)	0	0	0	0.03
Income Before Tax	-0.45	-0.6	-0.43	-1.34
Tax	0	0	0	0
Income After Tax	-0.45	-0.6	-0.43	-1.34
Diluted Weighted Average Shares	106.02	89.82	87.03	73.46
Diluted EPS	-0.004	-0.01	-0.005	-0.02

In early December 2010 Ucore closed a brokered private placement of 25mn units at CAD$0.40 per unit for gross proceeds of CAD$10mn. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant gave the holder the right to purchase one common share at a price of CAD$0.55 for a period of 24 months from the closing date. There was a four-month hold period expiring April 10, 2011, which goes some way to explaining why the stock suffered some selling pressure in recent weeks after briefly getting above $1.

We would suspect that the drilling budget will rise in 2011 as the company tried to expand its resource. The company signaled to us that its big spends in 2011 will be a 6,000-9,000 metre drill program (in Q2 and Q3) and a metallurgy study in Q2 of 2011.

Risks

The potential pitfalls with this venture are few but merit mentioning:

- That the REE space goes off the boil
- That the resource does not expand considerably with further work
- That a potential bidder does not materialize
- Environmental concerns raise their head

Conclusion

There should be no illusions about Ucore's ultimate intent, this is to sell the property at Bokan Mountain rather than develop it into a REE mine. To this end the company is being made "oven-ready" for someone else to bake. This is a viable strategy but can result in an "Old Maid" status should the product spend too long on the shelf awaiting a buyer (go no farther than Seabridge's KSM mine for a salutary example).

UCore is the ultimate in niche players in the REE space. It has styled itself as a takeover target, which is not only admirable but makes sense. It has also parsed the "me-too" marketing of those with Heavy Rare Earths and further narrowed itself down to being a Terbium/Dyprosium focused HREE story. The former factor has largely driven the share price as the latter is interesting and could be a company maker, the trouble though being that UCore will not be the company that reaps the Terbium harvest from "going niche". Pursuing "boutique" REE mines is the way to go in our estimation.

UCore has cleverly dressed itself up to have all the boxes ticked for a potential acquirer with only price being the subject of discussion. UCore is the type of project that Molycorp needs to restore its credibility with the more informed REE mavens who look askance at the "attractions" of Mountain Pass. Even at $150-200mn picking up UCU would be more pocket change for MCP, particularly if it can use its hypervalued stock instead of cash.

The company is well-funded and has a decent starter resource with the possibility that this will expand. The next few months will probably present the best opportunity for a predator to pick this one off with little competition. The more time that goes by the more likely it is that UCU might succumb to blandishments of potential off-takers and maybe sell a minority stake to a Japanese trading house, for example. However, we think it most likely that UCU will end up as a trophy in Molycorp's wall.. In light of that we are regarding UCore as a **Long** opportunity at this time with a twelve-month target price of CAD$1.30.


CA:UCU Daily
4/15/11
1.50
1.25
1.00
0.75
0.50
0.25
0.00
Volume
©BigCharts.com
15
10
5
0
Millions
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
11
Feb
Mar
Apr

Important disclosures

I, Christopher Ecclestone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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