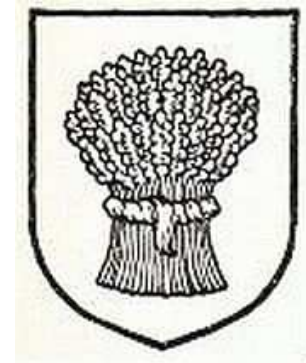


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HALLGARTEN & COMPANY

Sector Review

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The 2nd World Antimony Forum

Buy-side and Sell-side on Common Ground

The 2nd World Antimony Forum

Meeting on Common Ground

- + China is dominant player. Recent history has shown its tendency to like disciplined markets without abrupt price movements
- + There are many old mines outside China with the potential for reactivation
- + Antimony ranks very high in both BGS and USGS rankings of criticality of supply
- + Prices at current levels are good and make viable the bulk of projects being contemplated
- + Regulatory threats to the use of ATO have been lessened by the work of the International Antimony Association
- ✗ Long term underinvestment has led to a shortage of projects in the pipeline
- ✗ The majority of potential mining projects are small scale and will need to be bundled together to make viable units
- ✗ There is a shortage of roasting capacity outside China
- ✗ Markets and most investors have not got any sort of a grasp of Antimony and its dynamics which means that raising the profile of the sector will be a long and arduous task

Mixing it Up in Heights of the Antimony World

I was a guest speaker this week at the 2nd World Antimony Forum, run by Asian Metals in Madrid. My topic was Mining Finance in Capital Markets for Antimony Miners. More on that later (because I was the ultimate speaker).

The crowd was a select one indeed with key players from the European and Asian regions with a smattering of North Americans and even some parties from Central and South America. Definitely the forum had the heavy-hitters in attendance. I would also note that composition was more than 90% “Buy Side” (traders, processors, refiners, end-users) versus less than 10% being “Sell Side” or the miners. We were the salutary finance industry presence, and then there were staff of the International Antimony Association (I2A) to represent the regulatory state of things.



Of course the chief source of tension between the buy and sell-sides in any metal is over price... particularly in metals with industrial applications. The users want lower prices and sellers want higher prices. In Antimony the price is well off its 2010 highs and even gave back a little more in the last year taking it under the \$10,000 per tonne mark but, most were in agreement that the price going under \$8,000 would hamper profitability at the few Western producers and any lower and they would shut down leaving the Chinese as almost exclusive producers (with some artisanal operators in LatAm and South East Asia thrown into the mix).

The Burmese Mystery

However this would be bad news for the Chinese as well because China has gone from being an 80% plus market share of end-product, which was almost all its own ore, down to the low 60% area in terms of share of global mine production with its 80% plus share of end product coming from it being the largest importer of concentrates, particularly from Burma/Myanmar. The latter was the true revelation of the conference because it doesn't figure in global production statistics and doesn't merit attention in the USGS survey of where the global reserves are and yet it is supposedly producing between 14-40,000 tonnes per annum. No-one really knows as most of it is smuggled by the rebel tribes in the north of Burma that mine it and then send it into China for processing. The pundits with a good calculator take the difference between what China supposedly mines, what it officially imports and then what it supposedly exports and the difference is the widely differing X factor of Burma. This may also be subject to faulty algebra as well because China is a big clandestine exporter of end Antimony Trioxide. This theory is explained by Vietnam's hefty exports when the country has scarcely any production! The rationale behind this furtive movement is to avoid the Chinese export tax on Antimony. In theory China is not fulfilling its export quotas and yet several countries in Europe are reporting imports from China that are greater than the whole quota... Something is clearly awry.

Lie, Damn Lies and Statistics

The lesson from all this is that the waters are muddy indeed. And in our perception this helps the Chinese. If one thing is clear it is that everyone else is but a small asteroid circling the Chinese sun in the Antimony solar system. Eschew the gravitational pull and one floats off into outer space. Well, at least that is the way things work at the moment. The big thing the Chinese should fear is the creation of a "parallel universe" of miners and roaster/smelter operators outside China that divert product direct to Western consumers without the product ever entering the swirling mass of the Chinese "system". One of the speakers at the event was Emin Eyi, of the AIM-listed Tristar Resources. This company was originally a Turkish Sb mining play. Then it hooked up with the sovereign wealth fund of Oman and came up with the idea of a 20,000 tpa roaster/smelter producing a Antimony Trioxide product with the cheap energy in that locale. Such a development would move maybe 15% of roaster capacity out of the Chinese orbit. It would provide capacity to roast (potentially) the entire output of the three largest non-Chinese mines (Consolidated Murchison in South Africa, Mandalay's Costerfield mine in Victoria, and Hillgrove in New South Wales, the latter two both in Australia). Such a "break for freedom" would throw

a cat amongst the Chinese pigeons. Western companies would scramble to source from non-Chinese production just to feel safe from over-concentration on the Chinese, even though there may also be shipping economies from buying closer to Europe. Then if a few other smaller roasters entered the fray (we met someone who ran one in Turkey at the conference) then they could also cater to other smaller Western mine start-ups (without forgetting the US has US Antimony's processing facility in Montana). In that scenario the Chinese might be left with the zero sum game of being the larger producer and consumer with these two cancelling each other out in an autarkic outcome. The world would divide into two markets...

Resource Security

No one has much problem with Chinese dominance at the moment, as the large Chinese contingent at the event showed, but still in these days of rattling sabres no-one also wants to be too dependent. Japan in particular must wonder (as the world's second largest user at 10,000 tpa) as to whether tensions over islands could produce supply disruptions as happened in Rare Earths a couple of years back. There was a Russian contingent (Geopromining) who spoke of their own mine and two others (one owned by Norilsk) in that country. Curiously all the Russian production now goes to China for processing.. how the mighty are fallen.. It would seem logical though that Russia will at some point have at least one roaster in operation to corral local production and keep the value added in the country. We also met the people behind the UK-headquartered private antimony mine developer Rusan. They will be producing from a mine near the Chinese border by late summer and have a concentrator up and running also. It will be interesting to see if this heads to the AIM, giving London its first listed Antimony play.

Off the Beaten Track

Interestingly the talk on Antimony away from events like this is on the known locations to the mainstream mining community, such as Australia, Canada and South Africa. However the focus amongst the miners present at this event was on different territory. There were two companies with (between them) three past-producing properties in Spain, there were two players with mines in Honduras, there was a roaster owner who had a stake in a Turkish producing mine and there was the owner of the largest mine in Tadjikistan. This was on top of the aforementioned Russians. The party that was scheduled to appear and didn't was the crew from Hillgrove, the mine that was recently sold by Straits Resources (SRL.ax) to a Hong Kong group, Bracken Resources. This Sb-Au mine, which I spoke about in my presentation, was last producing as recently as 2008 when it shut for financial and process reasons. It will apparently be back humming again soon, but with its product heading off to China, much to the disappointment of those that had hoped for an alternative Western source of supply. Other chatter related to Consolidated Murchison, the largest Sb mine outside of China. This South African mine is owned by Village Main Reef, the JSE-listed miner that has had the asset up for sale for a few months now. Speculation is rife that the Chinese might be the buyers, which would be bad news for the big trader Traxys that takes the product to India to roast. However there was also some possibility that Traxys (in which the PE investor, Carlyle Group, has just taken a chunky stake) might end up being the

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buyer. The lips of Traxys contingent were hermetically sealed on the issue. The people from Village Main Reef had been scheduled to appear and then did not...

Conclusion

So the speech I gave ended up as the last item on the program (we shall not call it the high point, though some did..). It was interesting that so many on the buy-side knew so little about what was going on with the mining side of their business. It reminded us of Churchill's comment on the British and the Americans, "two nations divided by a common language". Many end-users at least in Antimony do not think about "where their next meal is coming from". China has long been there as the bottomless supplier of cheap and abundant product. As many have realized in the Tungsten space, such a situation can quickly turn nasty and so we have seen end users in W (e.g. Sandvik and GTP) move towards securing non-Chinese supplies via direct stakes. I think if nothing else I was a bit of a wake-up call on this front. I also managed to show that Sb projects that are investable are not in short supply but that depressed mining finance markets in recent years necessitate end-users and traders showing a commitment to the metal via investment in new projects that are more than just a token 5% to 15% stake in a project or the listed vehicle. The buy-side need to become real partners in the sell-side's projects to make them happen before it's too late.

The outlook though is good for stable to moderately higher prices with less chance of the price spikes (and plunges) of the past. This lays down an environment for project developers that mean they are not in a boat in high seas, but one with smoother sailing.

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