

Is moly on brink of being mining megastar?

Investment fund offers exposure

BY ANDY HOFFMAN
AND SINCLAIR STEWART

It's rare, difficult to trade and next to impossible to pronounce. But thanks to the surging interest in all things metals and mining, molybdenum is about to get its own investment fund.

Moly, as it's most often called, is set to join a growing list of commodities including gold, silver and more recently, uranium, with a new fund that will give investors direct exposure to the price of the metal.

Resource guru Eric Sprott is preparing an initial public offering for the **Sprott Molybdenum Participation Corp.**, which will buy and sell actual molybdenum and invest in companies that explore for, mine and process the silvery white material used in furnaces, pipelines and aircraft engine parts.

The offering of shares, which will trade on the Toronto Stock Exchange, will attempt to raise roughly \$75-million, according to sources, and comes as the mining world turns its attention to Toronto for the 75th annual Prospectors and Developers Association of Canada (PDAC) conference.

Few investors had given much thought to moly before the recent surge in commodities. But the metal, often found alongside copper and used to make high-grade stainless steel, has drawn interest as its value has increased.

"No one's ever paid much attention to it, [but] it has margins as good as nickel or better. These prices are going to be with us for a couple more years," said a person familiar with the offering.

The moly fund is the latest attempt to cash in on soaring demand for fresh mining-related investments that will be front and centre at the PDAC show, which kicked off yesterday. More than 15,000 people from international mining and investment are expected to attend the four-day event. In just a year, the sector has undergone a massive transformation as Canada's Inco Ltd. and Falconbridge fell to mega-miners CVRD of Brazil and Swiss-based Xstrata PLC.

Like the soaring nickel prices that inspired the Inco/Falconbridge bidding wars, uranium emerged as a red-hot commodity last year, spawning the creation of hundreds of new junior explorers and a recent trend toward sector consolidation. Last month, **sxr Uranium One** and **UrAsia Energy Ltd.** agreed to merge in hopes of creating a new producer with a \$5-billion (U.S.) market value. Neither company existed four years ago.

David Davidson, an analyst with **Paradigm Capital**, said that despite last week's drop in most metal prices and a corresponding stock selloff on concerns of slowing demand from China and the United States, most investors and industry players believe the mining boom is far from over. At PDAC, they'll be searching for a fresh way to play it.

"People are going to be looking for new ideas. The coppers and the nickels have had a pretty good run so things like uranium and specialty metals like molybdenum or tungsten — those are all going to be well-attended," Mr. Davidson said.

Many expect the new moly fund to impact the price of the commodity by purchasing stockpiles of the metal that is already in short supply, with roughly 400 million pounds produced a year.

"This will have an actual effect on the moly market," said another mining industry source who warned that trading in the metal is "massively illiquid."

Molybdenum's 'margins as good as nickel'

Unlike, for example, copper or nickel, there is no forward trading in moly and it does not change hands on metals exchanges. Its price is based largely on supply and demand and set by traders and dealers who deal directly with customers. Moly has performed well recently, remaining at above average levels for the past few years. Due to tightening supplies, spot prices soared to above \$40 (U.S.) a pound in mid-2005 and have since settled back to between \$25 and \$27 a pound, well higher than the 1994 to 2004 average of \$4.50 a pound.

"The key here is, it's an extremely volatile commodity. So you make hay while the sun shines and you never know how long that will be," said one investor, who predicted the new moly fund could give a lift to prices and to moly miners.

The creation of commodity-specific exchange traded funds have made an impact on metal prices before. Anticipation of a silver exchange traded fund created by Barclays PLC's Barclays Global Investors unit helped silver prices rise 13 per cent last March. The ETF fund now holds approximately 111 million ounces of silver or more than 10 per cent of the 815 million silver ounces produced annually, BMO Nesbitt Burns Inc. analyst Geoff Stanley said in an interview.

In late 2005, Sprott Securities Inc. led the deal to create Uranium Participation Corp., a fund managed by Denison Mines Corp., which buys physical uranium, giving investors exposure to the price of the radioactive commodity. Uranium prices doubled last year and recently hit \$85 a pound, partly because of buying by financial players, who now account for roughly a quarter of spot uranium purchases. Urani-

um Participation Corp. now has a market value of \$678-million (Canadian) and its shares have gained 92 per cent over the last year.

Mr. Sprott, who divested his ownership of Sprott Securities in 2001, now heads resource-focused money manager **Sprott Asset Management Inc.**, which will manage the molybdenum fund in exchange for a 2-per-cent annual fee.

Toronto-headquartered **Blue Pearl Mining Ltd.** will serve as a consultant to the fund, and will market, buy and sell the physical moly holdings. Blue Pearl became the world's largest publicly traded pure-play moly miner last year with the acquisition of the Thompson Creek mine in Idaho. It also owns a moly processing plant in Pennsylvania, a 75-per-cent interest in the Endako mine in B.C. and the Davidson development project.

Blue Pearl shares have surged 160 per cent over the past year, as investors piled into the company after it pulled off the \$575-million (U.S.) acquisition of the privately held Thompson Creek Metals Co., giving it roughly 5 per cent of the world's annual moly production. GMP Securities LLP is the lead underwriter on the moly offering. Heenan Blaikie LLP is providing legal advice.

Molybdenum facts

Molybdenum is a silvery white metal that has one of the highest melting points of all the elements — above 2,000 C. It occurs in the mineral molybdenite, which is the basic ore mineral at all molybdenum mines. On the periodic table, molybdenum is a transition metal and has the symbol Mo. It is often a byproduct of copper mining.

As found in . . .

Molybdenum is used primarily as an alloying agent in steels and cast irons. It is most often applied to steels to enhance strength and resistance to corrosion at high temperatures. It is a key element in high performance stainless steels, increasing resistance to acids, salt and seawater corrosion. High-molybdenum content steels are often used in building applications such as bridges, swimming pool and water tank linings, and ship building. Steels used for cutting have high molybdenum content. Molybdenum can be used as a catalyst in petroleum refining and plastics. It is one of the primary alloys in jet engine parts.

Produced by . . .

The majority of the world's molybdenum supply comes from the United States, China and South America. Ten companies account for roughly two-thirds of production with copper miners Codelco of Chile along with the U.S.'s Phelps Dodge producing about half of that. A Canadian company, Blue Pearl Mining, is expected to produce 21 million pounds this year, about 5 per cent of the world's supply. Two Chinese companies, Jinduicheng and Luanchuan, together produce about 23 million pounds a year.

There are also hundreds of small molybdenum mines in China, many of which are being shut down over safety and environmental concerns.

ANDY HOFFMAN