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Good Golly, Miss Moly

Bob Moriarty
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Gold is for the mistress - silver for the maid
Copper for the craftsman cunning in his trade.
"Good!" said the Baron, sitting in his hall
But iron - cold iron is the master of them all.
-Rudyard Kipling

For as long as I can remember there has been a very well-known silver cheerleader calling for silver to rocket to between \$50 to \$100 an ounce. It's as if there is some permanent shortage of silver and for some reason known only to him, no one will ever mine it again, so it's going to the moon. But I can't remember him ever saying anything about all the other commodities out there which might go up. What significance is \$100 silver if gasoline is \$200 a gallon and a loaf of bread costs \$50? He never ever mentions what is going to happen to the price of other commodities when the Fed finally destroys the dollar and we have transferred our entire manufacturing base overseas.

So when I got an email on Friday I thought about him. The email commented about other precious metals. In the last year "the price of zinc is 31% higher, copper is up 45%, lead is up by 76%, molybdenum is up 200%, gold is up 12% and coal is ahead by 16%."

Sounds to me like moly is about as precious as you get. (When I began this piece a week ago, moly was \$15.50, now it's \$17.83. If it goes up much higher, they will be quoting it on CNN in price per ounce.)

I recently got back from a two week long tour of various mines and properties. And just by chance the last I visited was the Atlin molybdenum property of **Adanac Gold Corp.** - (AUA-V \$.55 Canadian 22 million shares outstanding, about \$11 million market cap ANCGF-OTCBB) - in Northern British Columbia just NE of Atlin Lake. Reputedly the most beautiful region in all of Canada.

And just for your information, so you will never **ever** forget the name of this company, Adanac is Canada spelled backwards.

Hard to remember, easy to spell. Molybdenum is easy to remember, hard to spell and even harder to pronounce. But if you like precious metals, you need to consider molybdenum.

Adanac... the name sorta rolls off your tongue. And just to be one step ahead of those who will write me about the misleading title of this piece, I do this deliberately... even



though all of my readers know I don't ever write about girls, when I add girls' names to the titles more people read the pieces. Wonder why that is?

80% of moly goes to harden steel and to produce stainless steel. And while moly in its native state is a flaky, soft metal, it takes over 4700 degrees F to melt, compared to 2700 degrees for iron. Another 20% goes into speciality chemical applications such as lubricants for oil drilling and refinery catalysts.

The [price of moly](#) goes up and down like a bride's nightie and this fluctuation has resulted in the curtailment of development plans for primary moly mines over the past 25 years. In the past 15 years, the price of moly has been as low at \$1.82 and as high as \$17.50. China has changed from being a net supplier to a net consumer in the past two years and prices for moly have tripled as Chinese steel mills have been running 24/7.

It's a truism in the mining business that all mines go through four or five owners before being developed. Adanac's Atlin moly property probably has them all beat. Placer gold was found back in 1898 at the mouth of Ruby Creek where it runs into magnificent Atlin Lake. As the miners worked the entire area looking for minerals, molybdenum was found on the surface in 1905 at the head waters of Ruby Creek. But moly had only been discovered in 1878 and there was little demand at the turn of the new century. As time went by, new uses were found for moly and demand increased. But moly is often found in conjunction with copper and 76% of moly is produced as a byproduct of copper mining. As the price of copper goes up, we can expect more moly to come on the market.

In 2002, at the very bottom of the moly market in terms of both demand and price, Adanac CEO Larry Reaugh spent \$4,000 (Canadian) staking the property. His timing couldn't have been better. The property has had about \$15 million spent on it between Kerr Addison and Placer Dome. In 1971, Kerr did a feasibility study based on a drill program showing 152 million tons grading .063 Mo. A sudden drop in the price of moly prevented them from going into production. It's important to note that they had to put up 100% of the money to earn a 60% interest and still would have had to pay a 3.5% NSR. So 100% of the investment would have gotten them about 50% of the profit.

In 1978 and 1980, the new owners, Placer Dome, conducted both a scoping study and a stage II feasibility study. Placer only owned 70% and still faced the 3.5% NSR. They concluded on the basis of 212 drill holes and about 32,000 meters of drilling they could process 14,000 tons of material a day and have a payback of 14.1% with a moly price of \$6.75 and the dollar at \$.90. In the end, Placer Dome walked as moly dropped again.

But Adanac owns 100% of the project for the \$4000 cost of staking when no one could ever imagine anyone actually wanting to produce moly as a primary product. And with the higher prices for moly and moly oxide, Adanac is conducting a 30,000 foot drill program. They have all the data from Kerr and Placer Dome but to conform to 43-101 standards, they have to twin the holes already drilled.



Reaugh anticipates a 20,000 ton a day project producing in the neighborhood of 10 million pounds of moly oxide per year. He plans a winter scoping and prefeasibility study but back of the envelope calculations show maybe a \$200 million dollar cost to get into production. That's a lot of money, gold mines are often cheaper. But the longer moly prices hold above \$15 the better the project works.

Right at a year ago, [I wrote a piece](#) on Sterling Mining after a short visit to Coeur d'Alene Idaho. In it, I showed how if you compared the price of Sterling to the price of other companies, Sterling was worth somewhere between \$5.37 and \$23.75 a share. Sterling rocketed from \$1.10 to \$14 before settling down to about \$6.35 a share.

Well folks, I thought a lot of Sterling CEO Ray Demotte buying silver in the ground for \$.002 an ounce. But the deal of the century has to be Larry Reaugh gaining 100% of Ruby Creek for four grand. Sterling is selling for about 6% of its known metal value in the ground (186,000,000) ounces. But Adanac is selling for less than .5% of its known metal value. Adanac is cheaper today than Sterling was a year ago.

That isn't going to last for long. The longer the price of moly stays above \$15 a pound, the easier it is going to be to get someone to commit to a long term price guaranteed product. If one of the Chinese companies buying up large quantities of iron ore signs a deal with Adanac, the project will be dead easy to finance without diluting the shares.

It will be another month before Adanac get assays back, when I was there they had just finished the 1st hole, going down 1185 feet. When Placer Dome took over the project, they just assumed they would go with the pit design from Kerr. It called for a 500 foot deep pit. So Placer Dome drilled 500 feet and not an inch more. Every hole bottomed in mineralization. I can't tell you how stupid I think that is. It's typical big company stupidity. Drill holes which bottom in mineralization don't tell you anything about the dimensions of the system, all they do is define the short interval drilled. You have to drill into barren rock before you start to understand the limits of an ore body.

The first hole Adanac drilled was a twin of a 500' hole drilled by Placer. But Adanac drilled 1185 feet, about 140% longer than Placer's hole. There's an excellent chance there is more moly there than Placer figured. No one knows how much more metal there is in place but Larry Reaugh is at least smart enough to realize he needs a lot more deep holes. It may require moving the pit, but a mine with a 50 year life is a hell of a lot easier to finance than a mine with a 25 year life. Once you have paid your sunk costs in a mine, your profit goes way up.



This is not to say there are not issues. There are issues. The town of Atlin, right on the eastern edge of Lake Atlin, is tiny. 75 people in winter growing to 300 in summer.

No one knows how large a staff the mine would require, it would be about 15 miles from town. But it would change the town and people often resent change, even when they are financially better off.

Some of the people in Atlin would welcome a permanent mine, some wouldn't. The government of BC hasn't been mine friendly for years but even the bureaucrats have



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begun to come around. It's easier to permit a mine now than it would have been a few years ago.

Building a mine with its associated plant and equipment requires more power than Atlin now generates. There has been some talk of putting in a hydro-electric plant and putting the entire area on the BC power grid. That's an important cost issue.

I'd guess off the top of my head that there are maybe 10 nice moly projects at various stages. You will be reading a lot about moly over the next few months as well as uranium. Each is up about 200% in the last year. Price increases such as that tend to suck minerals out of the ground. Larry guesses, at this point, that \$6 moly would make for a profitable mine. \$16 moly makes for profits right out of the park. But everyone with a property with any moly is thinking the same thing. Demand is about 140,000 MT a year and this would add 5,000 MT a year, hardly enough to change price. But if ten projects move along, the first two or three will make a lot of money, the next two or three will become marginal and depending on what stage they are at when moly prices come down, may get moved to the back burner and the last two or three are wasting money. It's a horse race with a great pot and the first horse across the finish line collects.

Of all the moly projects I've read about, I think Adanac is the most advanced. It's been to feasibility twice and almost went into production twice when the payback wasn't nearly as good as Adanac's 100% ownership. I'd guess Adanac has a year's head start right now. The winter pre-feasibility study isn't brain surgery, all they have to do is feed the numbers into an already-existing spreadsheet. If they can keep their lead, they will soon have a mine. The pre-feasibility is primarily to bring the existing data up to 43-101 standards.

And since they have fairly solid numbers already, they can leap ahead of the pack on a permanent basis if they can lock up a customer who wants a long term commitment. You may believe that the management of all those 24/7 steel mills in China and Japan are pulling their hair out right now trying to come up with a dependable source of moly. Some metals literally are on the verge of running out such as copper and for all purposes, moly has run out and the price could double or triple from here easily.

Any base metals major who wants moly will be looking at Adanac very closely. So the stock has a giant potential yet is priced as if moly isn't economic. It is. It is indeed.

Adanac is an advertiser. We participated in a recent private placement and as such have a vested interest in the success of the company. I like the management, I like the project and I love Atlin lake. This article neither suggests buying or selling any stock. It's your money, do your own due diligence.

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Bob Moriarty

President: 321gold Inc