

Client: Galileo Resources  
Source: Investors Chronicle  
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AIM: MINING

**GALILEO RESOURCES (GLR)**

**BUY**

**Galileo unearths rare opportunity**

**Bull points**

- Rare earths shortage
- The boss's track record
- Revenues from by-products
- Potential for resource expansion

**Bear points**

- Rising costs in South Africa
- Rare earth substitutes

We wouldn't base a buy tip solely on the record of a company's chief executive, but, in the case of rare earths miner Galileo Resources, it represents an important feature of a strong, albeit speculative, investment case.

Galileo is the latest venture of Colin Bird, a 40-year veteran of the mining industry who can spot an opportunity and knows how to turn it into money. In 2009, he sold copper-nickel miner Kiwara Resources to First Quantum Minerals for £158m. The cash-and-shares deal priced Kiwara paper at a 42 per cent premium to the closing price immediately before the offer. As the largest shareholder in the company, it would have been easy for Mr Bird to hang up his Davy lamp; instead he opted to exploit the global deficit in rare earth minerals by ploughing some of the profits into Galileo Resources.

Galileo is built around a stake in a South African site called Glenover, which contains stockpiles from a disused open-cut phosphate mine. Even 15 years ago, it was known that rare earths were present at the site, but industrial demand for these elements wasn't so strong back then. Last year, Mr Bird commissioned an analysis of samples taken from the stockpiles. This found much larger than expected rare earth deposits with variable – but commercial – grades.

The rare earths should be relatively easy to extract and process, particularly in the early stages of production as a substantial amount of ore is at the surface or near to it. Much of the required infrastructure is in place, but processing capacity might have to be added.

Mr Bird is confident that bulk mining operations at Glenover will be relatively low-cost, although mining in South Africa has become progressively more expensive as trade unions have become more effective. At least Galileo should be able to get an additional income stream by selling the site's residual phosphates and other valuable by-products.

The 17 elements classified as 'rare earths' are used in all manner of modern technologies, ranging from iPods to missile guidance systems. Indeed, the US military has warned that the worldwide shortage of these materials – and China's stranglehold on supplies – is a national security issue. After China's government restricted exports last year, average prices rose by around 50 per cent. As a result, a number of high-cost alternatives to rare earths became commercially viable, although the ability to substitute for rare earths

is limited. Yet, even with new supplies from mines in Australia and California in 2014, demand will continue to outstrip supply.

The maiden resource estimate at Glenover was over three times the size of pre-drill expectations, and it's possible – perhaps even probable – that the ultimate resource could be larger still as Galileo has a lot of exploratory drilling to complete. It's expected that Galileo will shortly bring its stake in the site to 73 per cent, which implies a net resource of 267,000 tonnes of rare earths. Taking stock market values of four similar companies, broker Shore Capital reckons that Galileo's likely resources should be valued at \$591 a tonne. That works out at 86p a share – over twice Galileo's share price. Buy.

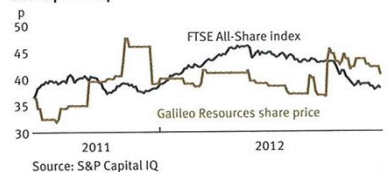
**IC TIP RATING**

Tip style: SPECULATIVE

Risk rating: HIGH

Timescale: LONG TERM

Share price 41p



Source: S&P Capital IQ

**Galileo Resources**

Ord Price: 41p Market Value: £31m  
Touch: 39-41p 12-Month High: 53p Low: 32p  
Dividend Yield: nil PE Ratio: na  
Net Asset Value: 20p Net Cash: £2.4m

| Year to 31 Mar | Turnover (£m) | Pre-tax profit (£000) | Earnings per share (p) | Dividend per share (p) |
|----------------|---------------|-----------------------|------------------------|------------------------|
| 2009           | nil           | -17.7                 | -0.18                  | nil                    |
| 2010           | nil           | -15.3                 | -0.15                  | nil                    |
| 2011*          | nil           | -1.1                  | -0.02                  | nil                    |
| % change       | –             | –                     | –                      | –                      |

Normal market size: 7,000 Matched bargain trading  
\*No forecasts available; historic figures relate to General Industries, which was subject to a reverse takeover by Galileo in 2011  
Last IC view: None