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Galileo Resources Fine Tunes Its Plans For The Glenover Rare Earths Project In South Africa

Galileo Resourceshas announced that rather than opting for a larger bulk-mining operation at its Glenover rare earths project in South Africa, it will instead focus solely on the higher grade breccia zone near the surface, around which a recent preliminary economic study was based."Previously they'd talked about bulk mining the carbonitite below the breccia", says Shore Capital's Yuen Low, talking to Minesite on the phone after he issued a fairly succinct research note apprising investors of the developments.And he offers a fairly colourful geological analogy to explain to investors exactly what lies behind the decision. "Think of an ice cream cone with a cherry on the top. The cherry is the breccia. The ice cream around is the carbonitite. What Galileo was doing when rare earth prices were very high was thinking they could take the ice cream and the cherry."But they're not high any more. On the contrary, over the past couple of years rare earth prices have come down by a factor of 50 per cent or more, depending on which rare earth you're talking about.So although last month's PEA for Glenover remains unaffected by the decision, the possibility that the project might be developed on a much larger scale has for the time being at least been shelved.Not that there isn't still potential for improving significantly on the PEA numbers by other means. As it stands, the net present value of Glenover stands at US$512 million and the potential internal rate of return on offer is 34.5 per cent, using a basket price of US$60.79 per kilogramme of rare earths.The cost to get it built is put at an initial US$233 million, including a US$34 million contingency but not including US$57 million of sustaining capital. Galileo's chief executive Colin Bird is confident he can get the IRR up though, and although Yuen Low doesn't put any numbers on that potential, he does seem inclined to agree that there's plenty of opportunity to hone the project economics."Galileo wants to make the economics better by chucking in by-products", he says. When rare earths prices were high, that was less pressing. But now they're lower, the case for including phosphate, niobium and scandium is much stronger.There's also room for manoeuvre as far as the processing technique is concerned. The PEA uses sulphuric acid, and optimisation work is currently underway in Germany with regard to efficiencies that can be obtained by recycling reagent. That, says Colin, could well get the IRR into the 40 per cent-plus range.He's also keen to talk up the potential of an alternative processing route out of China that will use nitric acid, that's currently being tested. The results of those tests will be known in about two months, so investors won't have long to wait to know what further savings are on offer.In the meantime, although Yuen Low acknowledges that rare earths prices are currently weak, there remains the possibility that by the time Galileo gets Glenover into production they will have gone higher again.To support this view Yuen cites Chinese macro-economic policy which is currently closing down less efficient, and in particular less environmentally-friendly mines in order to help minimise pollution."China is trying to clean up its rare earth industry for pollution reason", he says. "They're taking a much much tougher line on miners and therefore basically restricting supply."That's highly significant because China produces almost all of the world's rare earths supply, having forced most other producers out of business some years ago.And, when prices do start to rise, Galileo will be in pole position - not just because it's a producer outside of China but because the grades in the breccia portion of Glenover are significantly higher than the average grade of rare earths deposits elsewhere in the world. The current overall resource grade at Glenover is 1.37%, but the grade for the breccia is 2.2%. And the average grade for a rare earths deposit is around 1%.What's more, Galileo already has nearly three million tonnes of material grading 2.08% in stockpile. "For the first few years of any operation this is quite a significant feed to your plant at very low cost", says Yuen.So it could all work out very nice for Galileo in the end – it could be moving into production with a high grade concentrate at about the same time as market appetite for its product is turning for the better.The plan at this stage is for a 24 year 400,000 tonnes per year open pit. Whether it'll still look the same by the time it's up and running remains to be seen. But notwithstanding that the market has been slow to take an interest of late, it remains as Colin says, "an exciting project".
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