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HALLGARTEN & COMPANY

Initiation of Coverage

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A.I.S. Resources

(TSX-v:AIS, OTCQB:AISSF)

Strategy: LONG

Key Metrics	
Price (CAD)	$0.025
12-Month Target Price (CAD)	$0.07
Upside to Target	160%
12mth hi-low	$0.015-$0.06
Market Cap (CAD mn)	$5.11
Shares Outstanding (mns)	204.22
Fully diluted	327.22

A.I.S. Resources

A Lithium Project Generator Hybrid

- + The company has accumulated, then farmed out, highly-prospective territory in Salta province in Argentina's prime Lithium *salar* belt
- + The Incahuasi project, part of a package farmed out to Spey Resources (TSXV:SPY), is the most advanced of the farm-outs
- + Another portfolio of brine lithium targets on the Pocitos Salar was optioned to C29 Metals (ASX:C29) and is undergoing due diligence
- + Yaretta XIII, the remaining Lithium asset is still available to be transacted at the Salar de Cauchari
- + Argentina has "come in from the cold" with investors as it has risen in the rankings to become the go-to place for new brine lithium developments
- + The company has an extensive portfolio of Australian gold (and possibly Antimony) targets in the state of Victoria and the Lachlan Fold Belt of New South Wales
- + A demerger of one or the other of the company's main silos portends a potentially lucrative payday for shareholders
- ✘ Argentina is seen as a high-risk jurisdiction, when in fact rules have not changed for decades
- ✘ The status of potential NSRs in A.I.S.'s favour remains unclear
- ✘ Argentine foreign exchange controls, with a ridiculous parallel exchange rate system, create headaches for inward investment in mining
- ✘ Gold remains somewhat rangebound, making funding exploration works a challenge

Unravelling the Gordian Knot of A.I.S.

The becalming of the Lithium sector, post 2017, in the wake of one of the Bulge Bracket shoving a stiletto between the ribs of the battery metals space left many a junior bereft of a *raison d'être*. A.I.S. was one of these names. It has accumulated a portfolio of Argentine Lithium targets under the leadership of Phil Thomas (formerly of Admiralty Resources) who had spawned the Rincon project earlier in the decade. The fans of Lithium brines were not mistaken in their enthusiasms as the roll-call of the fallen Canadian spodumene included not only the companies themselves but their hapless investors. The passage of time has shown brines as the way to go and Argentina to be the Saudi Arabia of Lithium. However, being right does not put bread on the table.

In the process of adjusting to the grim new reality (while dealing with some ownership squabbles in Jujuy province in Argentina) the company pivoted to gold in Victoria (Australia). This was only a slightly less thankless task. However, the pivot resulted in most of the Argentine assets being farmed out over time and the company looking less like a Lithium wannabe and more like (maybe) a royalty company thereupon.

We now come to launch coverage on A.I.S. and shall relate recent history and discuss how various ways forward could be achieved that might be win-win for all concerned.

Lithium Rising

The strong and growing interest by majors in developing Argentine *salares* shows that global doomsters in the equity markets have left the lights in the marquee of the Battery Metals Boom undimmed. Recent Lithium industry events in Buenos Aires bordered on a feeding frenzy and the local politics raised nary an eyebrow for participants, which is more than one can say about Chile or Mexico these days.

With Lithium in short supply, at least for now, the investment and development dollars are heading for the jurisdiction that provides most opportunities at the least degree of hassle. Perversely this is Argentina at the current time. It's not perfect, and the foreign exchange issues are a challenge, but these pale in comparisons to the stones that the Chileans and Mexicans are putting in the way of developers.

The Argentine Lithium Assets

The company has interests in six Lithium assets of note in Argentina, spread across the provinces of Salta and Jujuy.

A.I.S' Lithium partnerships lie within the Lithium Triangle of South America, which encompasses parts of the basins and ranges throughout the Andean Puna Region of Argentina, Bolivia, and Chile, where closed basins have prompted the evolution of numerous lithium and potassium brine deposits.

The Farmed-Out Assets

Over recent years the company has reduced its direct exposure to Lithium by optioning assets out to arms-length and non-arms-length players. These assets are:

- Candela II – lithium brines on the Incahuasi salar – Salta province
- Pocitos 1 & 2 on the Pocitos salar – Salta province
- Pocitos 7 & 9 on the Pocitos salar – Salta province

Yareta XIII, Strategically Placed on the Cauchari Salar

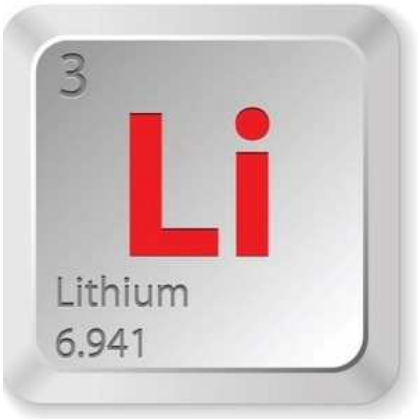
AIS is seeking to option the Yareta XIII property in the Cauchari Salar and is reviewing expressions of interest.

Closeology

The Puna Region of Argentina (provinces of Jujuy, Salta and Catamarca) comprises some 30 *salars*, generally with potential to host lithium-potassium mineralization. These *salares* include:

- producing operations at Livent's Mina Fenix at the Salar del Hombre Muerto West and Allkem's operations at Salar de Olaroz
- several advanced exploration projects, such as Cauchari (Soquimich sold to Ganfeng), Salar de Ratones-Centenario (Eramine), Salar de Llullaillaco (International Lithium), Rincon (Ady Resources), Salar de Diablillos (Lithium-X) Salar del Hombre Muerto East (Allkem)
- a number of other projects in development, such as Salinas Grandes (Allkem-Advantage Lithium) and Pastos Grandes (Millennial Lithium sold to Lithium Americas)

Lithium Brines Formation



Lithium (from Greek: *λίθος*, romanized: *lithos*, lit. 'stone') is a chemical element with the symbol Li and atomic number 3. It is a soft, silvery-white alkali metal. Under standard conditions, it is the least dense metal and the least dense solid element. Lithium ranks 27th in rank of elemental abundance.

Even with this relative scarcity there are a fairly large number of both Lithium mineral and brine deposits, but only comparatively a few of them are of actual or potential commercial value.

The deposits have been formed because of lithium's higher solubility in hot water than most other cations, so it sometimes has concentrated in flowing and cooling magma and/or its accompanying aqueous fluids, as well as in evaporating brines. Thus, hydrothermal fluids may be an important lithium source. The high-lithium brines usually have obtained most of their lithium from geothermal waters, with perhaps some of the lithium coming from surface leaching of volcanic ash, clays or other rocks.

However, lithium is very difficult to leach from the lattice structure of all rocks and minerals, so little is dissolved unless the water is very hot. Experimental studies have shown that at ambient temperatures, only 55–170 ppb dissolves from extended contact with granitic rocks, but at 275–600ºC 0.25–2.4 ppm Li can be extracted in the same agitated, long contact-period (Dibble and Dickson, 1976).

Regional Geology

The Puna is a large block of crystalline basement rocks that was uplifted during the Tertiary Period. The intervening valleys are filled by recent clastic and chemical sediments derived from weathering and erosion of the adjacent mountains. The centres of the valleys are often salt lakes that may contain significant quantities of lithium, borates, and sodium sulphate in both brines and crusts. The flanks of the valleys are often alluvial fans which can contain vast sub-surface water resources, important in such an arid region.

Most of the mountain ranges are oriented in a northerly direction, paralleling regional structures. Some of the mountains rise to 2000 meters above the Puna valleys. These valleys, which often contain lithium-

bearing brines, have elevations ranging from about 3500 to 4000 meters above sea level.

The mountains in general show a rough topography because of their young age and intense weathering caused by the arid, cold and windy climate. Volcanoes, such as Llullaillaco Volcano which rises to 6710 meters above sea level, tend to dominate the landscape in the west. That volcano is a large, isolated conical shaped mountain surrounded by a vast detrital apron. In many of the intermontane basins, extensive saline lakes and dry salt flats (collectively, *salares*) are found.

Candela II – On the Incahuasi *salar*

The Candela II Mina concession is a license for exploration of lithium and borates with a claim number Expediente No. 23,262. The Candela II concession is in the Los Andes department in Salta Province.

The Candela II Mina covers approximately 29.6 sq km^2 , being about 8 km long and 3.7 km wide. A map of the concession is shown on the following page.

The Candela II licence neighbours Gangfeng Lithium (SHE:002460), China's largest producer of the battery metal and Orocobre (ASX:ORE), a lithium producer in Argentina.

The salar is easily accessible by road, with no indigenous communities nearby, this region has been substantially explored and shows the lithium brines are close to the surface.

Geology

The Incahuasi salar is located in the Geological Province of La Puna and within the Puna Austral Geological Sub-province. One of the most important characteristics that define the Geological Province of La Puna is the presence of evaporite basins or *salares* where deposits of borates, sodium sulphate and lithium are concentrated. The Incahuasi *salar* occupies one of these endorheic (internal drainage) basins.

The Incahuasi salar and basin is regarded as having the potential to support commercial lithium brine extraction operations at depth. This basin is impacted by the Cerro Aracar and Pular volcanos, contributing lithium to the salt through aquifers. Previous explorers have sampled brines between 270-300ppm, from the top 50 metres of the *salar.*

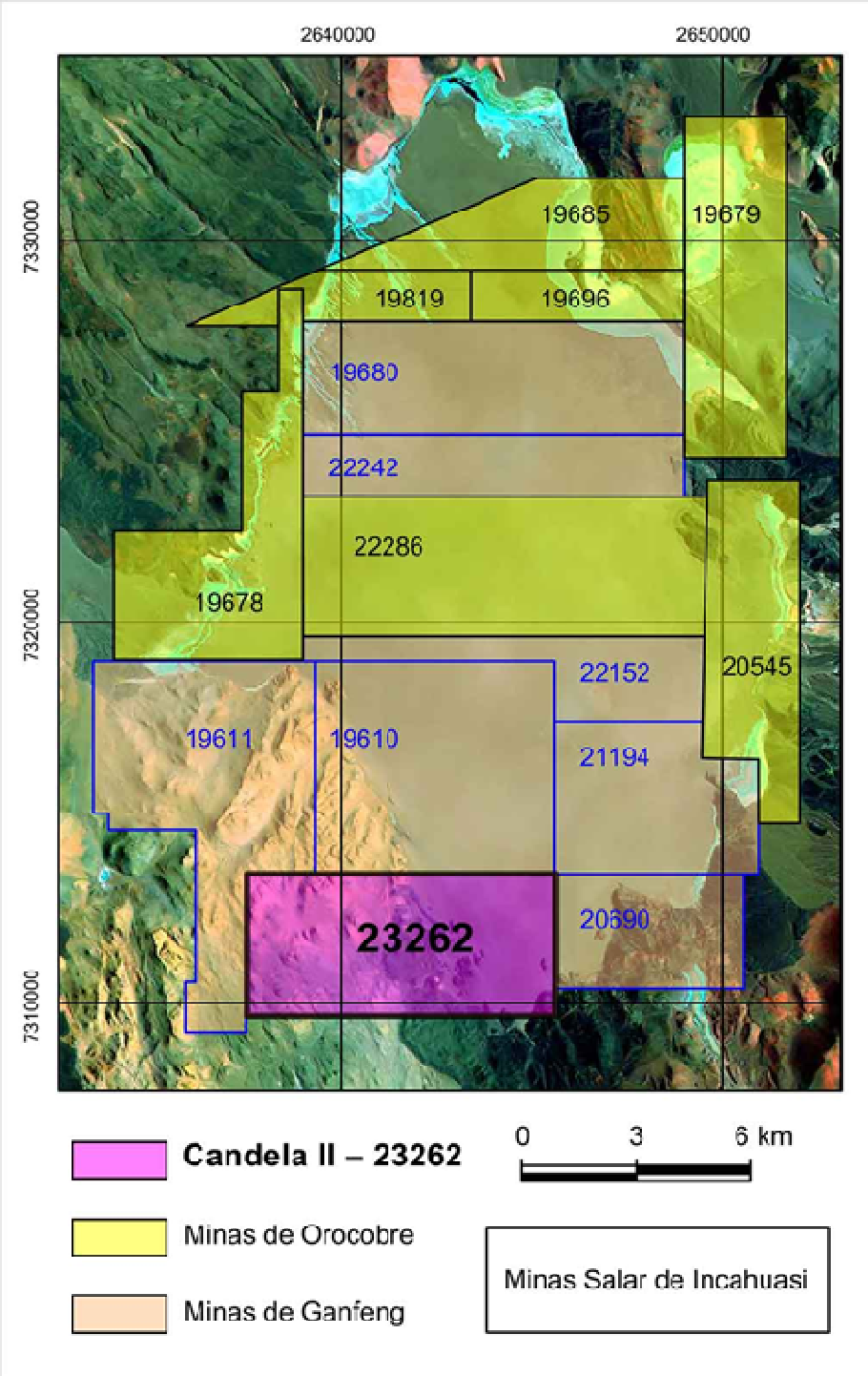
Spey Resources (CSE: SPEY, OTC Pink: SPEYF, FRA: 2JS)) Enters the Picture

Spey Resources is a Canadian mineral exploration company, the CEO being Phil Thomas, who was the former CEO and director of A.I.S..

Spey has an 80% interest in the Candela II lithium brine project located on the Incahuasi Salar in Salta province. Spey also holds an option to acquire a 100% undivided interest in Pocitos 2 and a residual 20% interest in the Pocitos 1 lithium projects (of which more anon).

Spey also holds interests in four lithium exploration projects located in the James Bay Region of Quebec.

In addition to its Lithium pursuits, Spey has a 100% interest in the Silver Basin Project located in the Revelstoke Mining Division of British Columbia as well as an option to acquire a 100% interest in the Kaslo Silver project, west of Kaslo, British Columbia.



The History on Candela II Ownership

The background to this transaction is anything but simple.

The original vendor, Ignacio Frezze Durrand, optioned the concession to AIS Resources in February of 2021. The option holders AIS had the right to explore the concession and the option to acquire the concession by making a payment of USD$1mn by March 18, 2022 which was completed.

In late March of 2021, A.I.S. optioned to Tech One Lithium Resources Corp. an 80% interest in Mining Licence File Number 23262 (Candela II) covering 29.6 km^2 on the Incahuasi *salar*. Tech One, a private company, initially optioned the Exploration license for 12 months to complete due diligence and further exploration work and had the right to acquire 100% of the property for USD$1mn (CAD$1.3mn).

Then on April 26, 2021, it was announced that Spey had entered into a Share Purchase Agreement to purchase all of Tech One's issued and outstanding shares. The consideration to Tech One's vendors was an aggregate of 23,500,000 shares.

The Tech One deal (inherited by Spey) allowed Spey to option 80% of Candela II by making the following schedule of payments and expenditures:

- US$100,000 payment within 5 business days of signing the Option Agreement (completed)
- US$100,000 payment within 5 business days before September 18, 2021 (completed)
- US$1,000,000 payment in within 5 business days before March 18, 2022 (completed). Spey paid A.I.S. the USD$1mn and then A.I.S. exercised its option with the vendor, paying on the $1mn to him for full ownership.
- Making US $500,000 in exploration or production expenditures by no later than April 21, 2022 (completed)

The surface rights belong to the concession holder and were thus acquired by Spey. Upon Tech One/Spey successfully exercising the 80% Tech One/Spey has the right, but not the obligation, to exercise the remaining 20% from AIS. The remnant 20% may be purchased by Spey for US$6mn on or before March 18, 2023, provided however that the amount of the 20% payment shall be increased by an additional US $250,000 for each five thousand tonnes of Lithium metal equivalent by which the Indicated or Inferred resource estimate on the concession, at the time Spey/Tech One makes the 20% payment, exceeds 45,000 tonnes of Lithium metal equivalent (239,000 tonnes of Lithium carbonate).

Spey apparently have a resource estimate imminent. Whether it will reach the 45,000 tonnes threshold remains to be seen and whether Spey can rustle up US$6mn by March of this year is also an imponderable.

A.I.S. retains a 20% carried interest throughout the exploration stage. Unfortunately, no royalties are due to A.I.S.. However this does not preclude A.I.S. from negotiating a royalty out of Spey (or its successors) with the remnant 20% holding of A.I.S. being the bargaining chip.

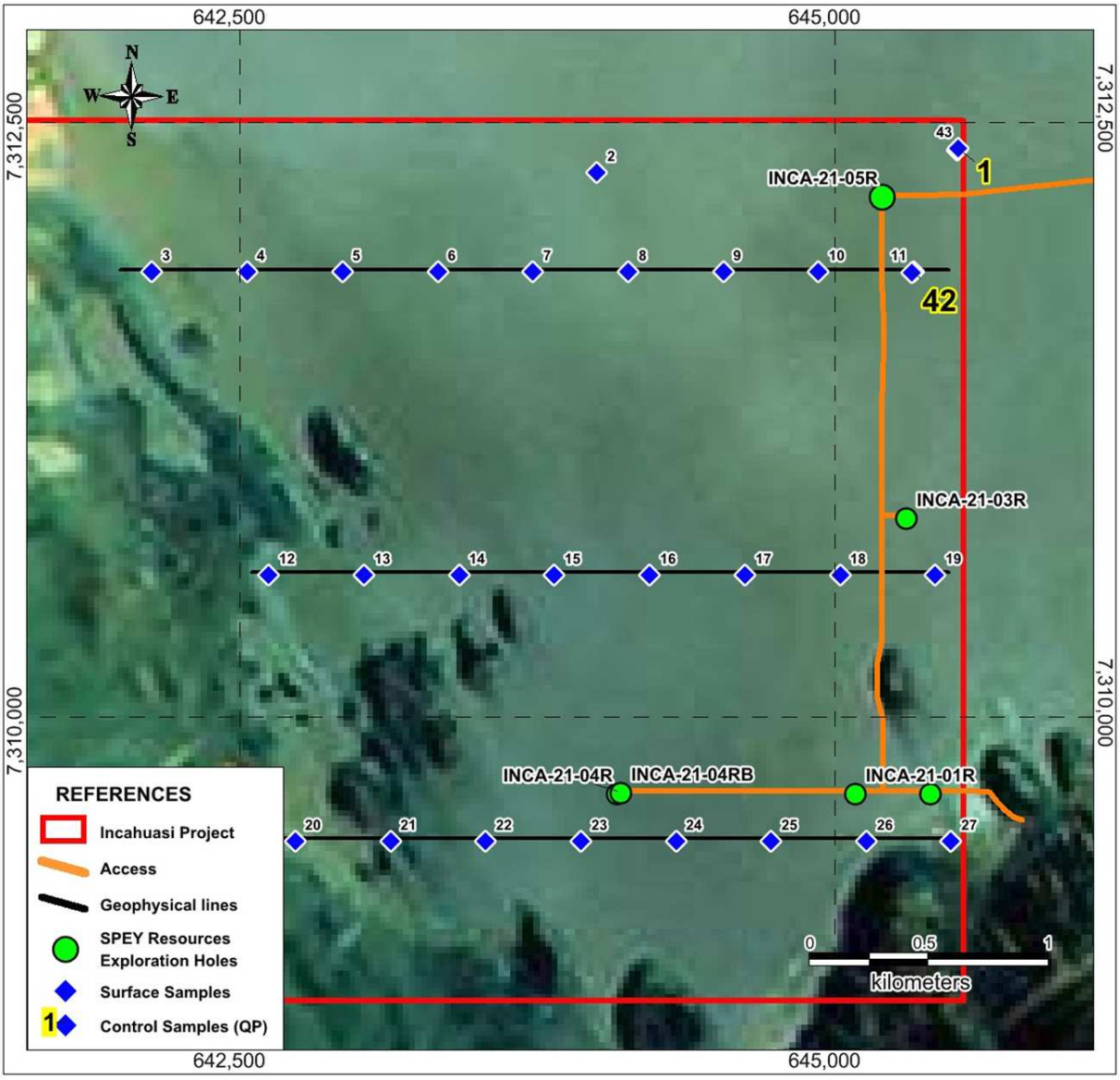
Exploration

In May 2021, 27 samples of near-surface brine were obtained. The samples were dispatched to the SGS laboratory. Of the 27 auger holes, all had brine at less than 1m in depth. The lithium concentrations ranged from 25 – 173 mg/L.

Spey claim to have expended around US$450,000 on its exploration program to achieve a resource statement. The work undertaken has consisted of:

- 5m deep Trenching to sample brines
- TEM geophysics survey over 30 points – Quantec Geophysics
- 2 x 100-150m drill holes to sample brines using double packer tool

- Downhole gamma geophysics to measure porosity, core analysis
- Collection of 200L brines to test using Ekosolve solvent exchange system to demonstrate yields at 99% Lithium Carbonate



Spey published a NI43-101 report in June 2022 based on the results from exploration drilling and geophysical surveys. This posited that the aquifer underlying the Candela II concession is saturated with a concentrated lithium brine. The upper part of the aquifer consists of halite and the lower part of the aquifer is mostly clastic sands and gravels. In the southern part of the concession close to the edges of the basin, the aquifer may be thinner, and the brine chemistry contains less lithium. It appears that there is some dilution of the brine with fresh water towards the edges of the basin in the upper part of

the aquifer where freshwater recharge occurs. Larger lithium concentrations occur in the northern part of the concession and with increasing depth.

Production?

Spey have mused publicly about the production potential of the Candela II asset at Incahuasi but does not have a PEA or FS in hand, as yet.

They are envisioning an initial plant 10,000 tonnes per annum of Lithium carbonate of battery grade i.e. >99.5% purity. The LCE would be shipped out of the port of Antofagasta in Chile.

Spey is positing what they claim is a low capex in the estimated range of US$95mn-$115mn. Opex is estimated to be a low US$2500-$3000 per tonne of LCE produced. However, we would note that this is back-of the envelope, not backed by a PEA.

Spey aims to have a "Green" footprint via low energy use with no evaporating ponds required. Solar electricity generation is intended to be used for offices, warehouse and living quarters.

Its goal is 95%+ Lithium recovery from brines. The output is intended to be 99.5% battery grade Lithium carbonate which can be produced from LiCl base product.

As far as timeline is concerned Spey envisions a fast build time from the pilot plant stage, with an estimated two-year construction and commissioning period.

Spey has mused aloud that revenues at then current prices (late Aug 2022) may exceed USD$667 million per annum.

The royalties imposed on lithium producers by the province of Salta and the federal government are 4.5% of the Free On Board (FOB) export value of lithium.

Spey Offtake Deal with Richlink

In early November 2022, Spey announced that it had executed a letter of intent (LOI) with Richlink Capital Pty Ltd., an investment bank servicing international institutions in the lithium markets. Richlink, has an Australian office through which it seems to engineer these deals but whether it is just a catspaw of Beijing is not clear.

The LOI "outlines the potential" for Spey to supply up to 20,000 tonnes of lithium chloride annually to two of Richlink's clients from potential future production from Incahuasi/Candela and Pocitos 2 projects.

The LOI contemplates that Richlink's clients would contract to purchase a minimum of 10,000 tonnes of lithium chloride of potential future production on a free on board basis from the port in Antofagasta, Chile.

The obligations of the parties will be subject to customary conditions after satisfactory completion of

due diligence, included:

- the board of directors of each party approving the proposed transaction
- the parties' execution of a definitive agreement
- the receipt of any regulatory approvals
- there being no material adverse change in the operations, condition (financial or otherwise) or assets of either party

There have been no subsequent updates so it is not clear if these conditions have been met, as yet.

Clearly Richlink perceive that the project has the potential to be more than a theoretical offtake supplier to their clients. It becomes more complex than that though. Spey still have to make the hefty March payment to A.I.S. if they want to take out the remnant 20%. If it does not happen then there is the perfect opportunity for A.I.S. to have a second go at driving a hard bargain on obtaining an NSR on the Candela asset.

Will Richlink put up the $6mn? We doubt it. Why would they pay that amount for 20% of the project when it resembles the current market cap for the whole of Spey?

We muse later in this note upon other further outcomes for the Spey/AIS situation.

The Pocitos Licenses

The exploration area, of some 600 hectares, is located in the Department of Los Andes. It can be accessed starting from the city of Salta by national route No. 51 passing through the town of San Antonio de Los Cobres, then continuing until the junction with provincial route No. 27 - in the vicinity of Cauchari - continue along this until the town of Estación Salar de Pocitos.

Geology

At the Pocitos and Pozuelos *salares* the main component of the evaporites is halite, however some salt flats have ulexite deposits such as wells. The Pocitos salar in its southern part contains accumulations of sodium sulphate, whereas in its middle part sodium chloride predominates and towards the north it presents manifestations of ulexite.

Both basins are separated from each other by the Cordón de Pozuelos. The Cordón de Pozuelos is made up mainly of rocks of Ordovician age, which show a slight metamorphism. The predominant geoforms show the effects of differential erosion, highlighting the quartzite rocks for their greater relative resistance, while the shales are more easily eroded. At the foot of the mountain range numerous coalescing alluvial cones can be seen.

To the north stands out the massif of the Quevar Volcanic Complex. There the composite volcanoes are united and form multiple volcanoes. Rounded forms are found, resistant to erosion and, in some sectors, such as the Azufre volcano, landslide phenomena are observed. The sedimentary Tertiary deposits, distributed in small outcrops, show very low resistance to erosion, so they do not form outstanding reliefs.

Exploration Thus Far

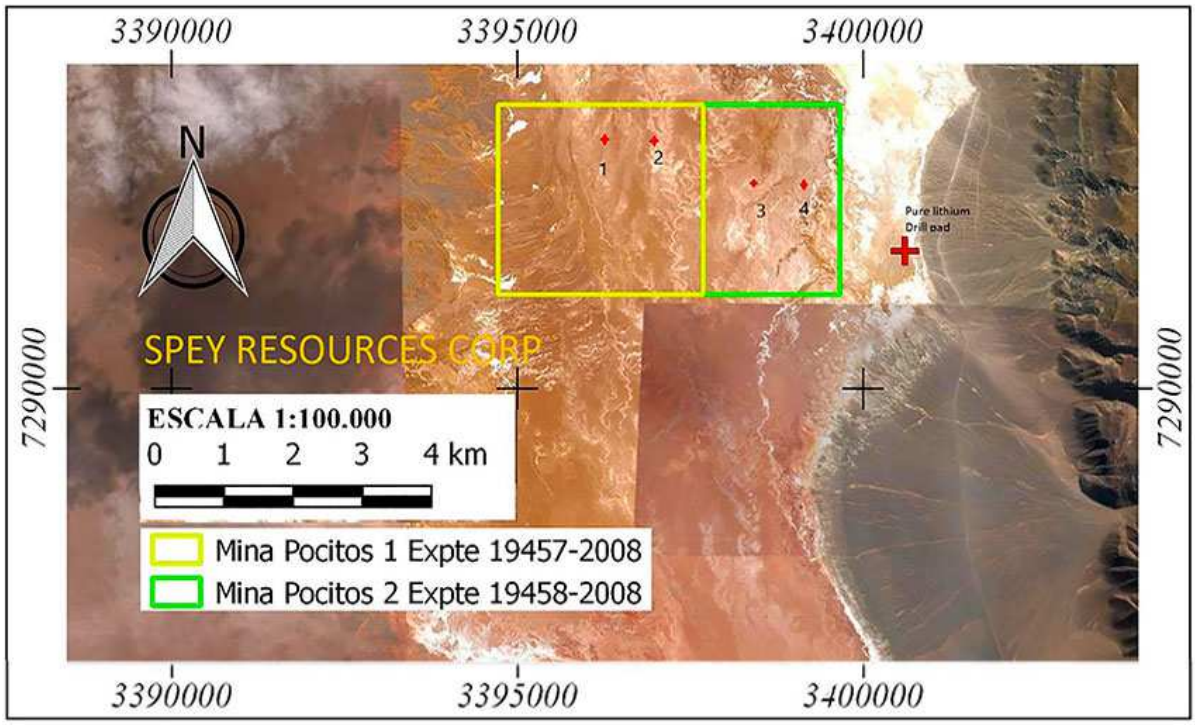
In 2018 AIS completed two drill holes at Pocitos I. The results from assays conducted by Alex Stewart show that lithium values of up to 125ppm Li were contained in brines that flowed from 350m to 400m intervals at more than 50,000L per minute.

The project was abandoned in 2018 due to the high Magnesium content, but now that Ekosolve™ is able to treat brines with high Magnesium the project has become viable and was re-optioned in 2021.

The Pocitos Option(s)

In June 2021, A.I.S. optioned its Pocitos 1 and 2 licences on the Pocitos salar to Spey Resources for an option fee of US$100,000 per exploration licence and 2,500,000 Spey common shares.

Spey will be able to exercise the option and acquire a 100% interest in the property by completing a US$500,000 exploration program on the property prior to June 23, 2022 (which was done) and paying A.I.S. a total of US$1,732,000 prior to June 23, 2023 (pending). Upon exercise of the option and Spey's acquisition of a 100% interest in the property, AIS will retain a 7.5% royalty on the sales revenue of lithium carbonate or other lithium compounds from the Pocitos 1 and 2 properties, net of export taxes.



Recharge Resources (RR: CSE, RECHF: OTC, SL5: Frankfurt)

Then in late March of 2022, Spey sliced and diced further the assets when it signed an option agreement with Recharge Resources Corp. (CSE: RR), under which Recharge Resources may acquire up to a 100% undivided interest in the Pocitos 1 project (covering some 800 ha). Interestingly, this was only half of the Pocitos package that Spey had optioned from A.I.S. in June of 2021.

Under the terms of the agreement, Recharge Resources may exercise the Option and earn an 80% undivided interest in the Pocitos 1 Project by paying Spey US$850,000 in cash payments and by issuing

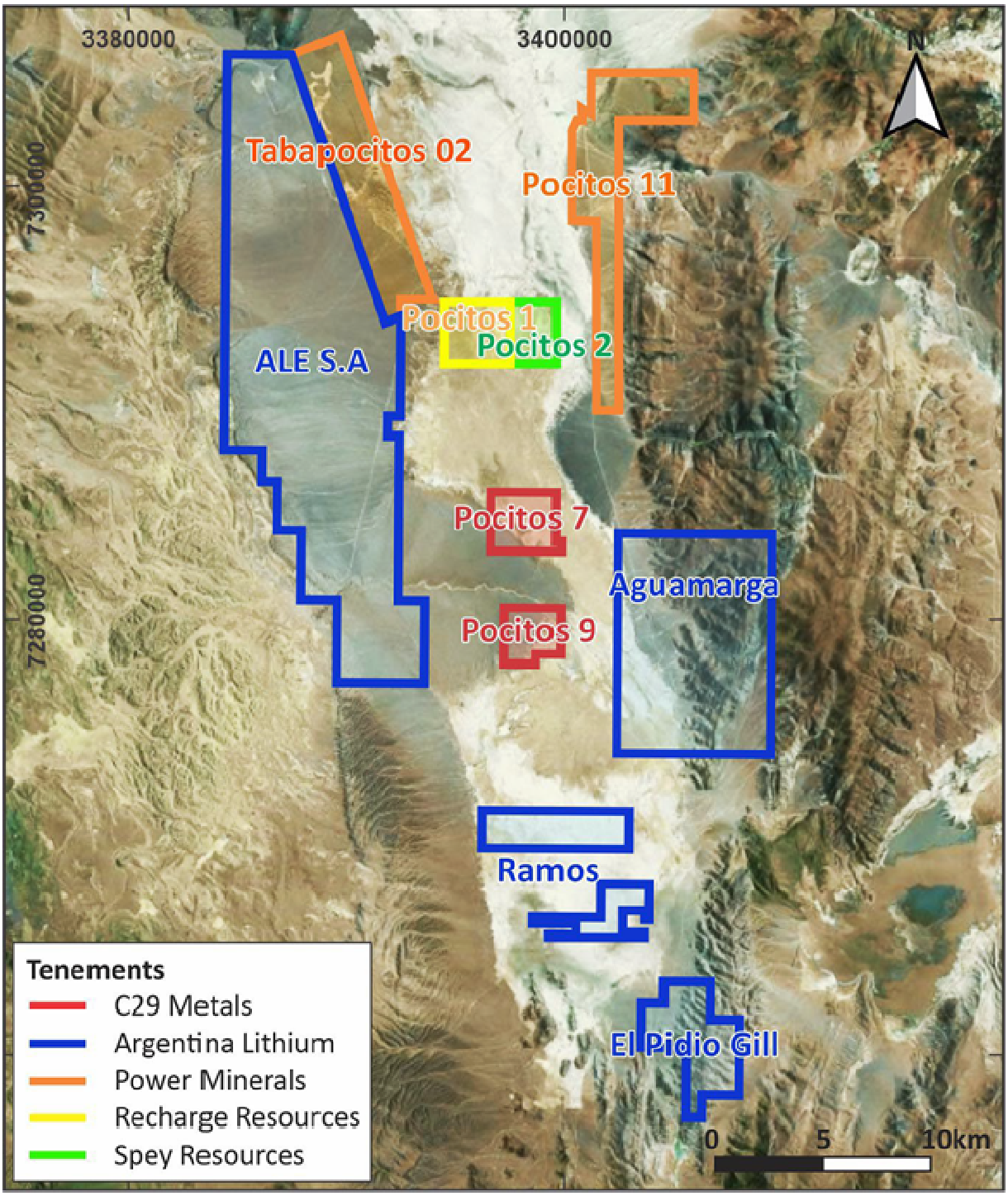
US$900,000 in common shares over a 12-month period from the date of exchange approval of the Agreement, on the following basis:

- US$250,000 in exploration expenditures must be incurred over the initial 12-month period
- An initial cash payment of US$350,000 and common share issuance having a value of US$400,000 are to be made within three business days
- A further payment of US$500,000 in cash and common share issuance (having a value of US$500,000) is to be made 12 months from the date of the first cash payment and share issuances

Recharge Resources may eventually earn an additional 20% undivided interest in the Pocitos 1 project for a total of 100% interest, by paying Spey Resources an additional US$6mn.

Following the exercise of the option and payment of the purchase price, a royalty payment of 7.5% of the FOB price of lithium carbonate or other lithium compounds will be payable 14 days after the invoice has been settled net of expert taxes to optionor.

The above details come from the Spey press release on the subject, as A.I.S. was not a party to this option deal. However, it is worth noting that the announcement does not mention that the NSR payable should really be a pass-thru, and thus not accruing to Spey, as that is the level of NSR payable by Spey to A.I.S. on this asset.



While not having a direct impact on A.I.S. this side deal in flipping the Pocitos asset to Recharge Resources put the asset at one more remove from A.I.S..

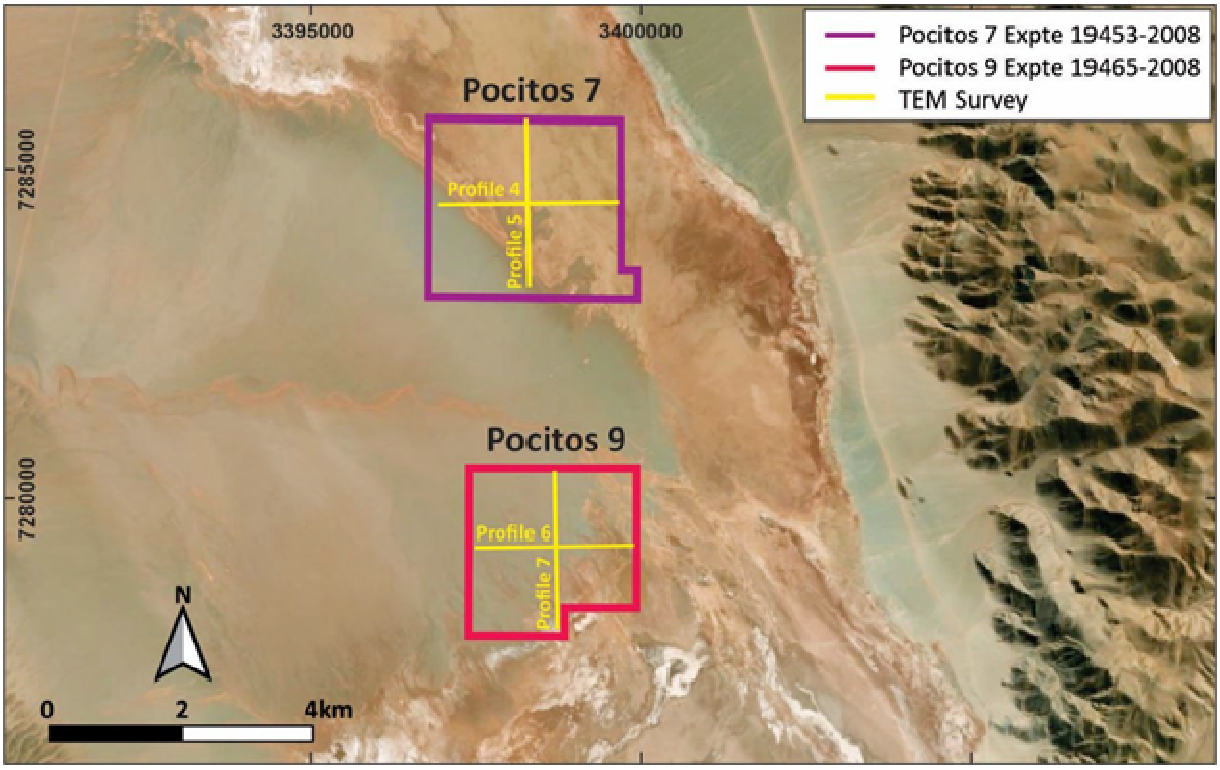
The Implications for A.I.S. of the Recharge Option.

Under the terms of AIS' underlying Pocitos 1 option agreement with Spey, AIS will receive $1mn from Spey upon exercise of the option. Following the exercise of the option and payment of the purchase price, AIS will receive a royalty payment of 7.5% of the FOB price of lithium carbonate or other lithium compounds, payable 14 days after the invoice has been settled net of expert taxes to optionor.

Intriguingly, in early October (so before Spey did its offtake) Recharge announced that it had executed a Letter of Intent (LOI) with the same Richlink Capital Pty Ltd for the supply of a minimum of 10,000 up to 20,000 tonnes annually of lithium chloride. The terms (at least as announced) were identical with those signed one month later with Spey.

Pocitos 7 & 9 – The Deal with C29 Metals (ASX:C29)

In late October of 2022, the company announced that it had signed, with C29 Metals Limited, an option agreement for C29 to acquire 80% of two exploration licenses, Pocitos 7 and Pocitos 9, located in the province of Salta by June 30, 2023.



The Deal with C29 Metals

In October of 2022, it was announced that C29 Metals had entered into an option agreement with A.I.S. Resources, to acquire up to an 80% interest in the two granted mining concessions on the Salar de Pocitos. The key terms of the C29 option agreement are:

- C29 paid a non-refundable option fee of USD$50,000 upon completion of a Heads of Agreement to finalise its initial legal due diligence on the assets
- After the expiry of the initial due diligence period, C29 continued with the Option Agreement and undertook further on-ground and technical work on the projects until 30 March 2023 by paying a second option fee of USD$115,000 per exploration license
- A third option fee of USD$75,000 per license of may be paid within two business days of the expiry of the Technical Period which then entitles C29 to exercise the Option prior to expiry of the Option Period
- If C29 elects to exercise the option and acquire an 80% interest in both projects, it will pay AIS a total of an amount equal to USD$2.38mn. If C29 elects to only exercise the option in respect of one of the projects, the exercise fee will be proportionally based on the total land areas of the projects (USD$1,700 per Ha)

If C29 exercises the option, the assets will be transferred by AIS to a newly incorporated JV company, for the purpose of operating between C29 (80%) and AIS (20%). C29 will have control of the JV's board and will be the manager of exploration activities undertaken.

In a slightly mindboggling formula, C29 has the right to buy out AIS's 20% interest at a price determined by the FOB lithium carbonate price multiplied by 2% of the M&I resource and 0.5% of the inferred resource of the contained Lithium Carbonate Equivalent (LCE). A.I.S. explained this as, for example, if the Measured & Indicated resource is 10,000 tonnes and the FOB price of LCE is $50,000 per tonne then the purchase price for the remaining 20% would be US$10mn ($50,000X 10,000 X 2%) .

Exploration

Though it is early days, C29 has already been collating and reviewing historical exploration data. Previous exploration has included the surveying of four TEM-VES (Transient Electromagnetic Vertical Electrical Sounding) profiles across the two exploration licences. These were deemed to have been successful in identifying a significant low-resistivity zone at depth which is interpreted as being a large aquifer hosting the target lithium-charged brines.

C29's technical team is proposing to drill-test these geophysical targets in the short-term before commencing a program of lithium extraction process testing.

Processing

C29 has also signed a non-exclusive intellectual property license agreement with Ekosolve™ Limited. The company will pay Ekosolve™ a license fee upon product production and sale.

Yareta XIII- Last Asset on the Block

The 1525-hectare Yareta XIII Project is located at the southern end of the Cauchari salar. This is an

extensive salt flat, 50 km long N-S, between 2 to 10kms wide E-W, at 3,600 metres elevation. It is located in the northern part of the country, 1,500 km northwest of the capital Buenos Aires.

Other mines/projects on the same *salar* are the producing asset of Allkem (ASX:AKE – formerly Orocobre). Exar Inc also have their large lithium project on this salar.

A.I.S website claims 1,575 hectares mineral claim.

While A.I.S. has not done any work on the asset itself, it notes that results of a 2010 Gravity/TEM survey conducted by Orocobre indicate if there is brine it will be at depth in the southern end.

In July of 2022, the company announced that it had completed a 43-page environmental impact statement for Yareta XIII.

AIS is seeking to option Yareta XIII and is currently reviewing expressions of interest.

In the Land of the Lithium Giants

Deng Xiao Ping is most famous in mining circles for his oft-repeated aside from the 1980s that whereas "Saudi Arabia has oil, China has Rare Earths". In some circles, Argentina is now being seen as the "Saudi Arabia of Lithium".

Argentina has Lithium and in abundance. In theory, for many decades Chile was the place to source Lithium from brine lake Lithium deposits but in a curious own-goal situation, Chile has squandered that advantage by trying to keep a tight control on the number of players and advantaging the two incumbents. Predictions are that Argentina will overhaul Chile in terms of Lithium production by 2030. The result of the Chilean torpor at welcoming new entrants is that the surprisingly more laissez-faire attitude in Argentina has made it the go-to place for those wishing to stake positions in *salares*. Thus, Argentina has become something like, to paraphrase Deng, the Saudi Arabia of Lithium.

The Fluctuating Fortunes of *Salares*

One of the paradoxes of the middle of the decade was the "talking down" of *salares* as being in some way "too difficult" or too "long term". Having said that though, several of the highest-flying stories in the First Lithium Boom such as Orocobre, Galaxy and Lithium Americas were *salar*-based. Back in that boom, and its current revival, there was/is a staking boom in the Argentine part of the Lithium Triangle that makes California in the 1850s pale into insignificance. Explorers, quite literally, cannot get enough of Argentine lithium territory.

The caution relating to *salares* exploitation was powered by the mishaps that befell Orocobre and Rincon. However, in both these cases the lessons learnt mean that others will have the benefit of their difficult experiences. The argument that there is a longer lead time for *salar* development (due to the need to kickstart the evaporation process) lacks relevance due to the much longer (and more expensive) drilling and resource estimation phase at a hard rock deposit and the much higher development costs at

underground mines.

The downfall firstly of Canada Lithium after the end of the First Lithium Boom and the travails of Nemaska, at the beginning of the latest recovery, have cast a pall in many investors' minds over largecap underground spodumene mines.

The Road Most Taken

Despite perennial concerns about the Argentina political direction, the metaphorical road to the Argentine *salares* opportunity has become more like a Los Angeles expressway in peak hour, of late.

Argentina has been in the Lithium game for decades, so is no newbie, but was always perceived as playing second fiddle to Chile.

Chile is merely focused on expansion of existing facilities these days. Chile's attachment to an ancient Pinochet regulatory system, that required nuclear regulators (CCHEN) to clear Lithium projects, just showed that Chile could not get out of its own way. This reinforces the view that Chile is not the mining paradise that many would have us believe. Its arcane regulations make it look like they are trying to keep new kids out of the game, and that is just resulting in Argentina making all the running.

With opportunities to enter and develop new projects in Chile finding constant stones in the road, several of Argentina's Andean provinces have become a veritable boomtowns for the Great & Good of the global EV revolution. The long-established Livent (formerly FMC) was joined by Orocobre and Galaxy Resources (which then merged to create Allkem ASX:AKE), and then a stampede of the elephants in the Lithium space occurred with Posco, Ganfeng, Tianqi and most recently Zijin Mining Group reset the bar higher with their stunning move on NeoLithium.

Not to be forgotten is ASX-listed Argosy Minerals (with their Rincon project – not to be confused with Sentient's fraught Rincon project) are now developing their Phase 2 step-up with Mitsubishi as the offtaker.

In November of 2021 TSX-listed miner Lithium Americas offered US$400mn in shares and cash for Vancouver-listed Millennial Lithium, the third offer for the company this year following one by China's largest battery maker CATL and lithium producer Ganfeng Lithium. Then to finish off the year, RTZ snapped up Rincon Mining, a company owned by funds managed by the private equity group Sentient Equity Partners, for US$825mn. A feeding frenzy has begun.

Beyond these majors, there is an array of junior players hoping to replicate the NeoLithium success story.

There is a good case to be made that the relative lack of *salares* moving to production pre-2019 was due to the double negatives of the low lithium price between 2011 and 2016 and the death throes of the first Kirchnerite period making Argentina an unattractive place to advance projects. Pricing has resolved itself and the Argentine government is welcoming Lithium players with open arms. This has now

provoked something of a stampede, which is not something we wish to stand in the path of.

Reference Pricing

As we noted in our July Monthly, the Argentine government had introduced a reference price of US$53/kg for Argentine lithium. We commented that it appeared to us to be a shot across the bows of the cartel (and others) playing in the Argentine *salares* space. Transfer pricing has been rife in the mining industry for a couple of decades now and the government is moving in to stymie the practice. No sooner had we arrived in the sometime Paris of the South, than an expose revealed that Livent may very well have been indulging for a very long while in such practices.

Allkem (AKE.ax) stated that the new measure was merely a reference price to be used by regulatory authorities when reviewing lithium export data to counter under invoicing and improve price transparency. Allkem stated that the price is not to be used as a basis to calculate taxes, royalties, duties, nor is it a price cap (as has been suggested in some recent media).

For some perspective, in China, the CIF price for Lithium Carbonate still stands near its record levels, with the product quoted at RMB 476,500 per tonne.

Ekosolve & **Direct Lithium Extraction (DLE)**

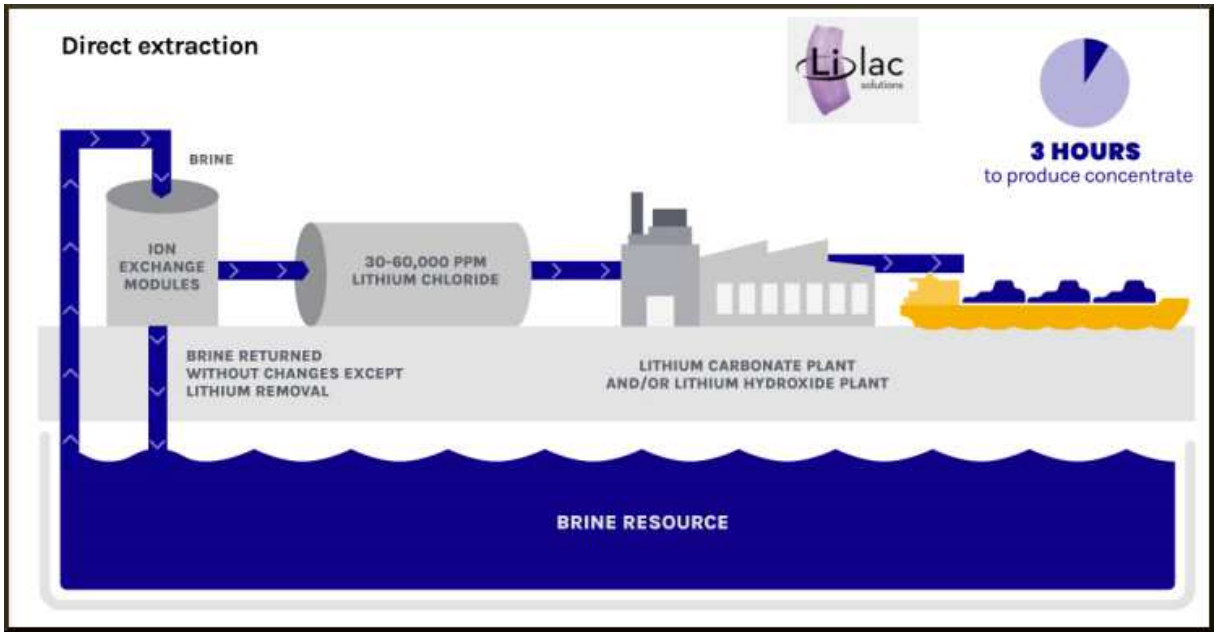
The traditional long lead time of 5-10 years on major projects across the mining space has had to be jettisoned as majors (end-users/offtakers/processors/battery makers) have jockeyed to get positioned, frequently having to take the reins to ensure timelines are compressed to match the voracious unsatisfied demand for lithium in particular.

Spey is currently trialing the DLE technology of Ekosolve and it is worth noting that Phil Thomas is also a shareholder in Ekosolve.

Spey has resolved to pursue the DLE processing path rather than the more traditional (and time-consuming) evaporative process for Lithium extraction which can take 18 months at the least and often over two years.

In late October, Spey Resources announced that the Chemical Engineering Department at the University of Melbourne had successfully produced lithium carbonate from lithium chloride extracted from the brines in Incahuasi Salar at the Candela II Project using the Ekosolve™ process.

The general concept of the DLE process is graphically depicted below:



Source: LiLac Systems

Spey has acquired the first Ekosolve production licence, which prioritizes Spey as the first client to commission Ekosolve to complete the construction proposal, preliminary and plant engineering and manufacturing of the plant at Incahuasi. EkoSolve has issued seven other licences to date and will progressively commence engineering after Spey engineering is completed.

The brines and the lithium carbonate that was produced are being assayed by an external laboratory to corroborate the results achieved by the University of Melbourne and the Ekosolve team. The brine was subjected to 10 phases of continuous processing that took approximately 22 seconds for the solvent to extract the lithium in each phase. The 10th phase had extracted 135.05gm of contained lithium from 140.23gm, a 96.03% recovery rate. The purity of the lithium carbonate was set at 99.5% based on the sodium carbonate used to convert the chloride. The Mg:Li ratio was more than 15:1, and the EkoSolve™ process performed exceptionally well. The trial was undertaken by Ekosolve Ltd. and reported to Spey.

The Victorian Gold Assets

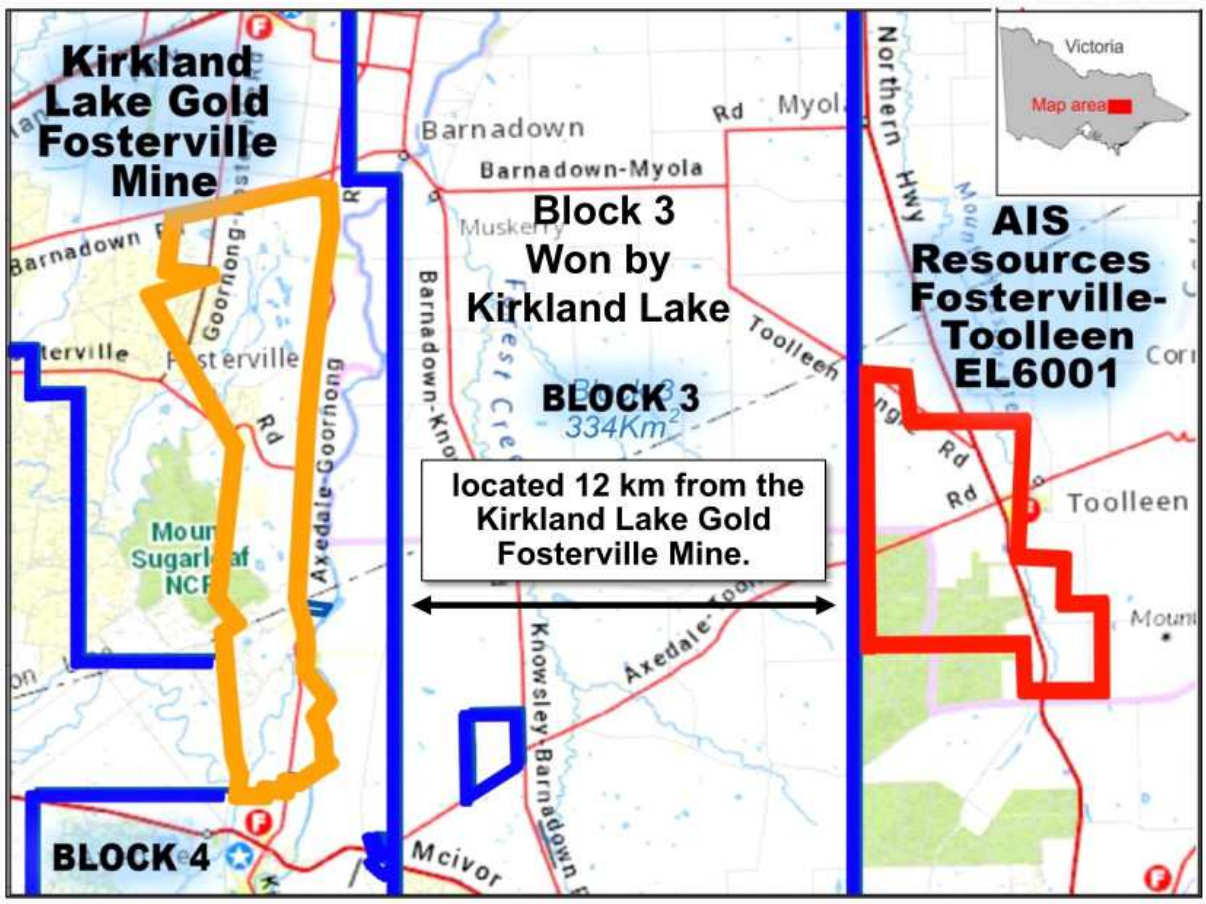
AIS Resources is exploring and developing three gold projects with over 250 sq km of property in the Victorian part of the Lachlan Fold Belt, also known as the Golden Triangle.

We shall look here at these three gold projects.

The Toolleen-Fosterville Gold Project

This is primarily as exercise in closeology due to the Exploration License being close (12 kms) from Agnico Eagle Mines' (formerly Kirkland Lake Gold) Fosterville Mine.

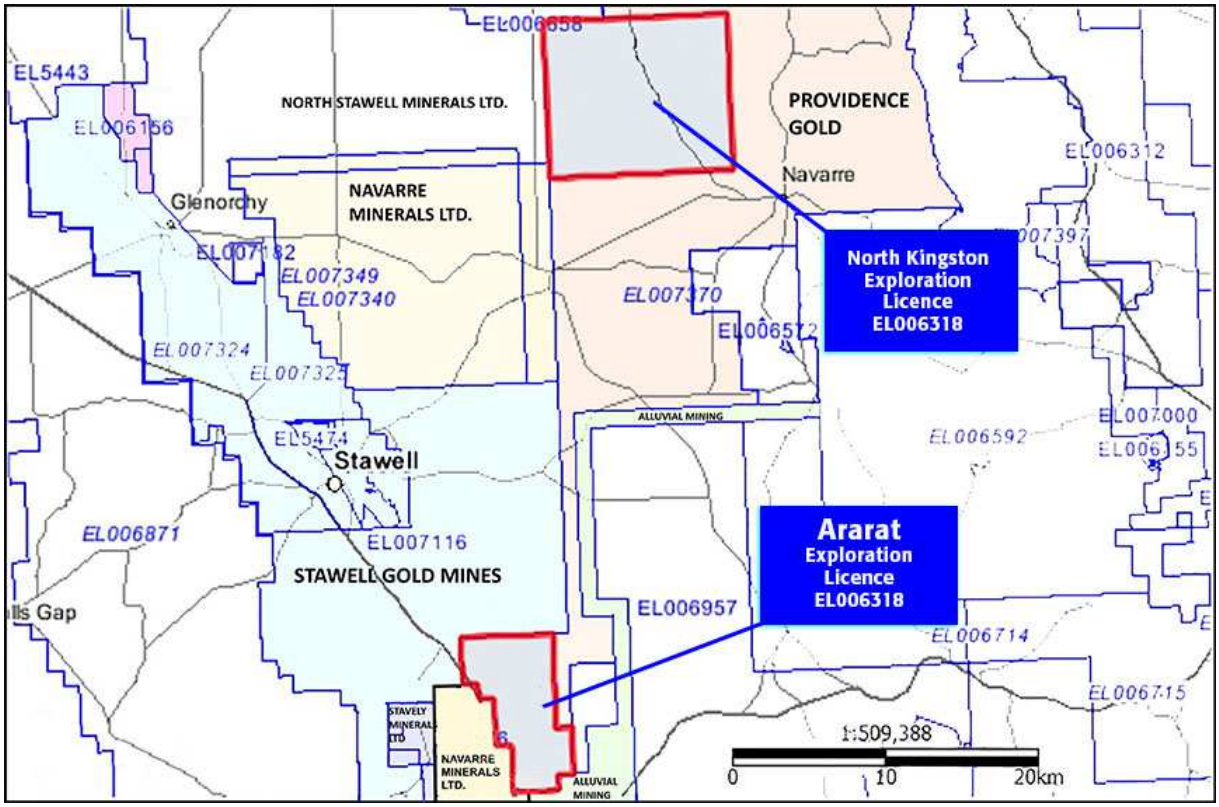
The Tooleen/Fosterville project includes the 26km^2 Exploration Licence EL6001, with reported production of 7,000 tonnes @ 10 g/t Au from the top 60 metres and an 88g nugget on surface.



The Fosterville mine has proven to be the lowest-cost producer worldwide at $315/oz and 34.3 g/t, with a past and present reserves of 9mn ozs gold.

The Kingston Gold Project

The 167km^2 Exploration Licence EL6318 is located 35 km north-west from Stawell, Victoria. The drill-ready property is flanked by Navarre Minerals (ASX: NML) and was previously explored by BHP and WMC. The best recent drill results recorded were 3.6m at 16.89 g/t Au, including 2.5m at 24.27 g/t Au.



In September 2020, A.I.S. was granted an option over the Kingston Gold project near Navarre, in north-western Victoria. The transaction involves a 100% interest in Exploration Licence 006318 that covers 167 sq kilometres (but excludes Prospecting Licence PL007020 contained within the Exploration Licence area, an area of five hectares).

The company paid AUD$35,000 to ConnorCoote Mining for the option.

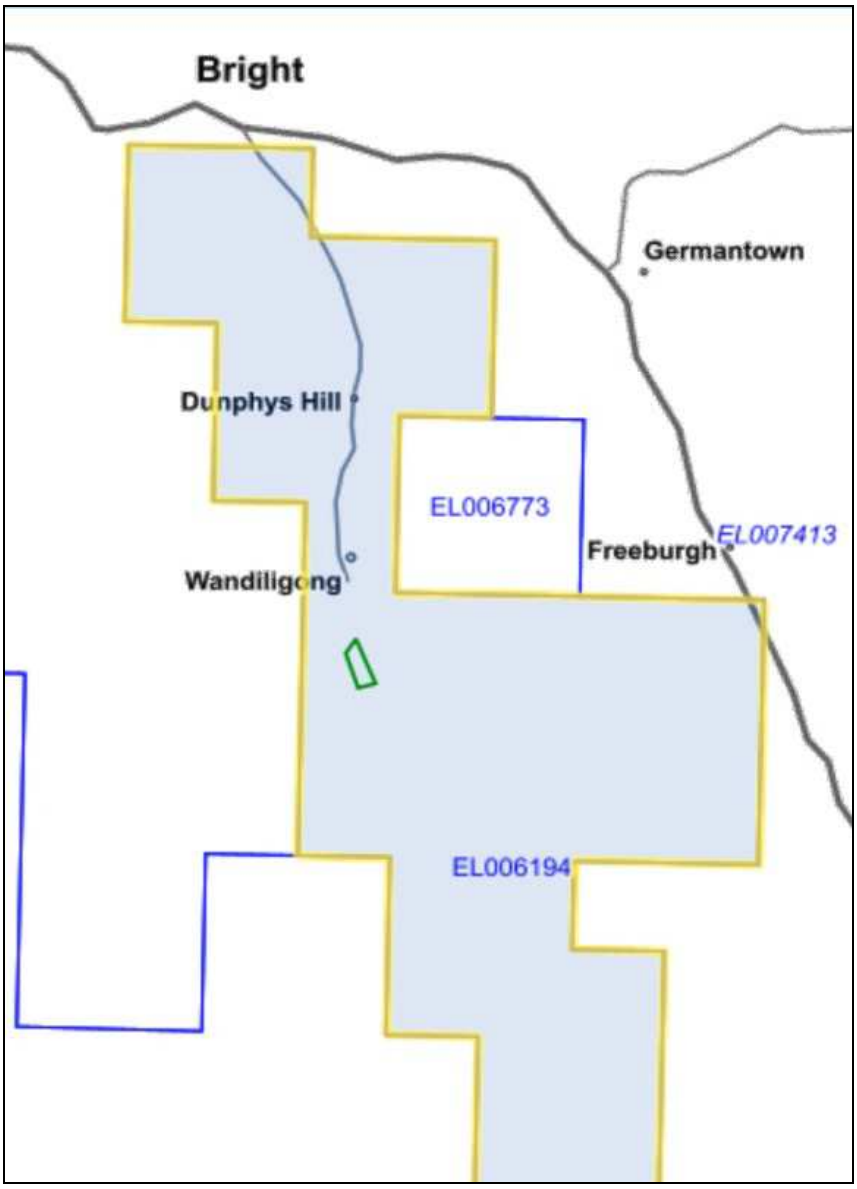
In 2021 A.I.S acquired 100% interest in the Exploration Licence by paying AUD$260,000, and issuing 4,000,000 common shares of A.I.S., 4 million share purchase warrants exercisable at $0.15 for a period of five years. The optionor will retain a 1% NSR up to a cap of 50,000 oz of gold. The Optionor will also be permitted to carry on mining activities outside of the PL007020 where the shaft started inside the PL, and an agreement has been reached on a 15% revenue share.

The Bright Gold Project

Exploration licence EL006194 contains more than 250 historical gold mines, reefs (quartz veins) and gold occurrences dating back to the 1890's with recorded production of over 730,000 oz from both alluvial and rock mining. The largest producers on the project were the Rose, Thistle and Shamrock mine @ 22.2g/t Au for 140,000 oz and the Oriental Mine @ 28g/t for 6,194 oz. The Bright Project is regarded by management as being in a premium location only 6 kms from E79's Happy Valley Project.

Historically the EL006194 yielded 341,000 oz gold at grades ranging between 7-99 g/t, averaging 22 g/t

Au.



The Transaction

A.I.S. acquired a 60% interest in the Bright gold property for a payment AUD$150,000 cash and the issuance of 10 million shares at CAD$0.06 per share. It has the option to acquire 100% interest in the project by exercising two 20% options at a pre-determined cost based on the Indicated and Measured gold mineral resources defined, to be paid 50% in cash and 50% in shares of AIS.

These terms of the two 20% options were amended In August 2022 as follows:

- the shares shall be issued at a deemed price of $0.06 per share

- the number of shares to be issued shall not at any time exceed 9.9% of the post-issuance issued and outstanding share capital of A.I.S. on a diluted basis

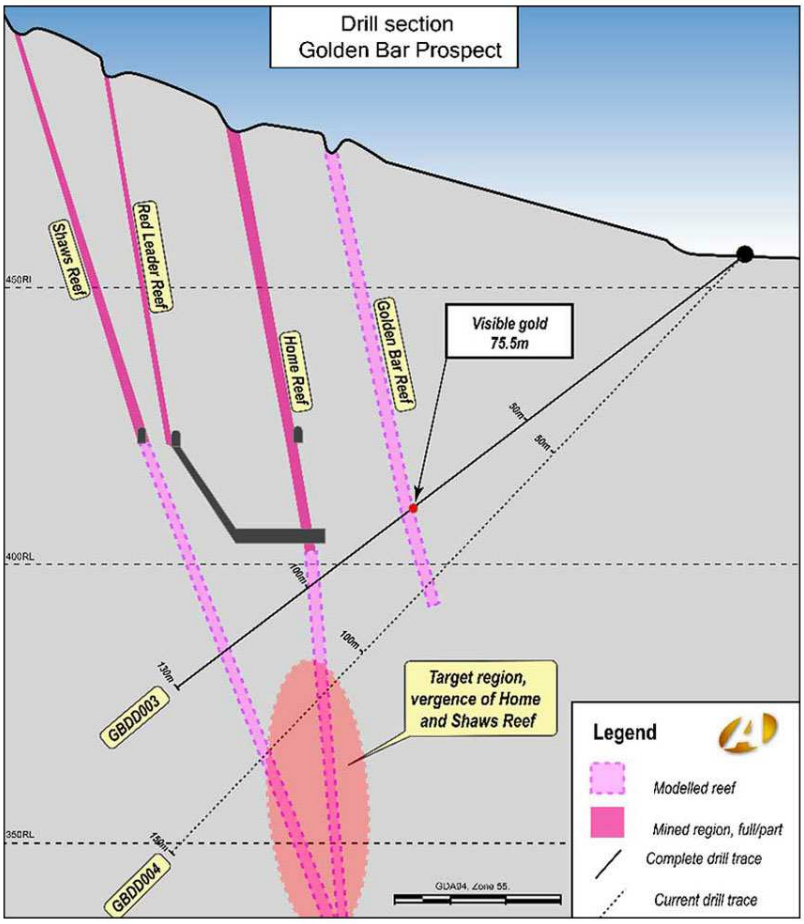
Work Thus Far

A.I.S. is currently drilling DDH3 at the Bright property at the Golden/Shaw/Home Reef site. Native gold has been seen in the core. The previous program at Reliance Gully program included three drill holes in a fan pattern from one point above the Reliance adit to intersect the reef. AIS has contracted with the driller to drill a minimum of 1500 m and each hole will be 50-100 m in depth depending on lithology. Core has been logged and sent for assay.

The current drill program is focused on the Golden Bar area. Further work is being done on the Rose, Thistle & Shamrock mine for drill pad locations and best approach to drill from Landtax Reef area. The highest ever gold content in soil assays of 4.53 g/t gold was recorded near Rose, Thistle, and Shamrock mine

In late December the company announced that hole GBDD003 included two shows of visible gold at 75.5m of the Golden Bar Reef. Assay results are pending.

A.I.S. has commenced preparations for its fourth drill hole at Golden Reef.



A LiDAR survey is planned on the lower half of the tenement in January 2023 to identify new drill targets near old workings. Legacy LiDAR interpretation shows hundreds of historic worked reef lines on the 57km^2 exploration licence.

A detailed community engagement program is being put in place concurrent with exploration work.

The Yalgogrin Gold Project - New South Wales

This 56km^2 Exploration Licence EL6030 and 2.8km^2 EL5891 represent gold targets and are located 37 km west of West Wyalong, in the historic West Wyalong gold corridor of central New South Wales, Australia. It includes seven historical mines, 31 drill holes, extensive auger and many near-surface gold intercepts, including some up to 32.2 g/t Au. AIS has a 40% interest until 23 April 2023.

Straddling the Divide

The essential problem at A.I.S. has been the crossovers in management and share stakes between a former director and CEO of A.I.S., who also has similar roles at Spey Resources (and a stake in C29). This

potential source of conflict has recently been removed by his departure as CEO at A.I.S. during 2022, followed very recently by his resignation from the board. Initially A.I.S. appeared to be the progenitor of a corporate grouping but has increasingly looked less like the tail that wagged the dog. The ongoing presence on the boards of both sides of any potential discussion about resolving the future of the various entities could have lead to conflicts of interest if not handled circumspectly. Who is representing whom when the discussion of the various company's futures was an issue, but now is no longer a consideration by the resignations.

One should remain cognizant that Phil Thomas still maintains the largest shareholding in A.I.S. and has substantial shareholdings in Spey and C29, while having an interest (50% shareholding) in Ekosolve.

Scenarios

There are a number of ways in which the A.I.S. Resources story may play out over coming years. We shall run with our underlying scenario that demand for Lithium remains strong but that the currently bizarre pricing comes down closer to earth (i.e. under US$40k per tonne for Lithium Carbonate) as more supplies come on line and the feeding frenzy eases (possibly aided by subdued take-up due to slower Western economies and overstressed consumers).

Argentina, barring a massive own goal, should remain the prime focus of greenfield effort, with Australia, and by far the prime source of "new" Lithium brine production.

We shall briefly look first at the Australian gold (et al.) assets. These are clearly quite anomalous with the Argentine lithium stakes and long-term are incompatible. They principally have an entirely different investment constituency, and their presence in the listed vehicle with Lithium exposure, risks scaring off one or the other investor groups and appeasing or appealing to nobody. The only school of management that can make this "chalk & cheese" combo work is management that, as the Americans say, "can walk and chew gum at the same time". The management at A.I.S. have not shown themselves to be so dexterous. Ergo, the two asset groups must part.

The obvious path is a demerger of one or the other. Listing the Victorian assets on the ASX as a demerger would seem more sensible than them malingering on a Canadian exchange. Curiously the portfolio of Victorian assets resembles somewhat that of the AIM-listed ECR Minerals on which we launched coverage some years ago.

However, one way, besides demerger, that a resolution could be achieved might be to recombine the remnant portfolio of Lithium stakes in A.I.S. with their erstwhile JV partners. In a microcosm, Spey for example, would issue its shares to A.I.S. (in exchange for the residual 20% stake in Incahuasi and other rights, real or imagined), and then A.I.S. could do a distribution in specie of this stock to its shareholders. The same could be done at C29. The Gordian Knot would be untied.

The tax implications thereof, we cannot comment upon with competence.

This allows management of the Canadian-listed Lithium wannabes to have their cake and eat it too

(while getting A.I.S. shareholders off the *Road to Nowhere* and onto the *Road to Somewhere*).

The obverse of the previously mooted demerger of the Australian exploration assets would be the creation of a rump Lithium entity that would have residual stakes in other companies which, it may, or may not, be able to enhance into royalties via arm-wrestling with Spey and C29. These in turn would best be monetisable into cash or fungible stock by merging into one of the various battery metal royalty companies that have been proliferating of late. We would note that there is NO reason for Yareta XIII to be sold off and thus that asset on the well-transited Salar de Cauchari could be central to making A.I.S. into a pro-active Lithium mover and shaker.

We somehow doubt that the royalties, if they could be haggled into existence, would make for a viable entity, with no cashflow over the next five years, to sustain a listed company until a payday appears. So, in essence, the remnant royalties (if they even exist or can be negotiated by swapping the equity stakes) do not have the option of standing alone in a vehicle in the public markets. As Gertrude Stein commented on Oakland, California, "there is no there, there".

This brings us to what appears to be the most sensible option which we shall call the "One Big Happy Family Merger" outcome. In this scenario, A.I.S. merges with Spey and C29 and a form of economic logic returns to the equation. This provides strength in numbers, whereas atomization just involves three listed entities needing to be maintained at a price of precious cash and management time expended.

The moot point in all this is whether the parties who have vested interests on both sides of the debate as to whether A.I.S, has rights to a royalty on the Lithium *salares* will be arguing the corner of the listed entities and their shareholders or only their own vested interests.

Finally, resolution of these matters could expedite, for A.I.S. Resources, a change of name from the exceedingly blah current moniker.

Financing

The most recent development on this front was that A.I.S. announced that, subject to TSX Venture Exchange approval, it intends to extend the term of 15,625,000 warrants expiring on the 29th of January of 2023. The share purchase warrants were issued pursuant to a private placement of 15,625,000 units in March of 2021. The warrants will be extended for a period of one year until the 29th of January 2024. The exercise price remains unchanged at 12 cents.

Buda Juice – the Hidden Gem?

The least known of A.I.S.'s ventures is its investment in a company called Buda Juice LLC. This company was co-founded by Bernard Lucien Nussbaumer and Horatio Lonsdale-Hands and is the owner/operator of a chain of stores in North America that sell 100%-organic, cold-pressed, glass-bottled juice. Buda Juice promotes as an unbroken farm-to-customer cold chain process which features juice cold pressed at 35 degrees (versus the industry norm of 80 degrees).

The investment dates back to mid-2015 when mining markets were in a prolonged swoon and A.I.S. started pursuing opportunities outside the space. We presume the choice harked back to Martyn Element's history in the food & beverage space.

The theory is that, with the global health and wellness market on the rise and global sales of products promoting a healthy lifestyle. Buda Juice is in prime position to capitalize on this burgeoning market.

The stores thus far are in Canada and in Texas in the USA. A review of A.I.S.'s annual filings on SEDAR reveals that the investment is measured at fair value through other comprehensive income. During the year ended the 31st of December 2021, the A.I.S. recognized an unrealized loss on investment of $4,887 (2020 – $23,164), which was recorded as other comprehensive income. The assessed fair value of the investment at the 31st of December 2021 was US $904,852 (2020 – US$904,852).

Board & Management

Martyn Element, President, CEO & Chairman, is the founder and President of Element and Associates, which is primarily focused on sourcing and pursuing new business ventures globally. He developed his experience in the public financial markets in Canada, prior to forming Element and Associates in 1989. Before entering the financial markets, he was involved in the food and beverage industry in Canada and the United Kingdom.

Kiki Smith, CFO & Executive director, brings more than two decades of experience in managing and financing junior listed companies in the technology, mining exploration and food production sectors. She had led a number of companies in debt and equity financings, corporate structure design and management, cash flow management and forecasting, legal and regulatory compliance, investor communications, stakeholder engagement and risk management. She is member of the Chartered Professional Accountants of British Columbia.

Anthony Balme, Non-executive director. In the private sector he is Chairman of Carter Capital Ltd., Lymington Underwriting (insurance) and Alton Resource Corporation. In the public sector, he is Chairman of Forum Energy Metals listed on the TSX and formerly of Ortac Resources which was listed on the AIM market. He focuses on identifying early-stage opportunities in the resource sector and arranging financings to advance projects to the public markets in both the U.K. and Canada.

Risks

The whole Lithium industry finds itself in a different world, with some constants from the previous "boom", but also quite a few things have changed. However, it is worth enumerating some of the risks that may be faced:

- A return to weak Lithium prices
- The Lithium market is still dominated by a group of large players, the majority of which were formerly components of the long-standing cartel in the Lithium space

- Argentina is a jurisdiction that constantly surprises and the ongoing restrictive exchange rate problem is seen by many as a problem
- Continuing lassitude in the gold price depressing investor interest

Prices retreated somewhat in late 2016 and then recovered in 2017 despite several projects moving into production. Supply is unlikely to suppress prices at this point as demand is expanding with significant vigour and, as in Lithium 1.0, many of the lesser projects will not be built as they are in the hands of pure promoters. The Lithium pricing frenzy through much of 2H22 faded significantly in the last weeks of 2022 as the speculative Lithium price bubble deflated.

Financing is not really coming from markets but from end-users or processors. In the case of A.I.S., Spey (et al.) would need to secure an offtaker, with the most likely parties being a player in the battery/Gigafactory space allied, or not, with an automaker. One should not discount that the Japanese either as they have been late to the party but will eventually try to engage in catch-up with the Chinese (and Koreans) in securing footholds in Argentina. There is also the Richlink transaction where Spey, Recharge and C29 have offtake agreement frameworks, with Richlink claiming to have accords with a major Chinese financier and a Lithium metal producer.

Argentine foreign exchange controls, with a ridiculous parallel exchange rate system, create headaches for inward investment in mining, however AIS has been able to take advantage of preferred exchange rates (approx. two times the basic rate) through Argentina's banking and foreign exchange programs for businesses.

Gold has been static for most of 2022, without a fillip to the gold price in 2023, the financing situation (and investors' interest levels generally) will not revive.

Conclusion

The lithium, cobalt and graphite spaces were largely unfunded from 2011 to 2017, and then had a brief renaissance before erroneous Wall Street projections on "satisfied demand" pulled the rug again. It was during the lost years of 2017-2021 that A.I.S. was forced to diversify its strategy as money for Lithium development was regarded as wasted investment potential. Thus A.I.S. farmed out its Lithium assets and refocused on Australian precious metals.

A massive wake-up call came in 2021 as, at a global level, the erroneous Wall Street prognostications started to become evident for what they were and the complications of spodumene extraction and processing created a major pivot towards Argentina and brine as the preferred mineralisation. The country is now being seen as the Promised Land of Lithium, as a largely benign approach from the Federal government has appealed to Lithium hunters seeking an open-door to lean upon. For A.I.S. it has ended up as somewhat of an observer at the feast as the farming out of Lithium assets left it firmly in the backseat. However, it does have its residual stakes in the farmed-out projects available for monetization and the Yareta XIII asset that it can develop itself to regain its cred as a pro-active player in

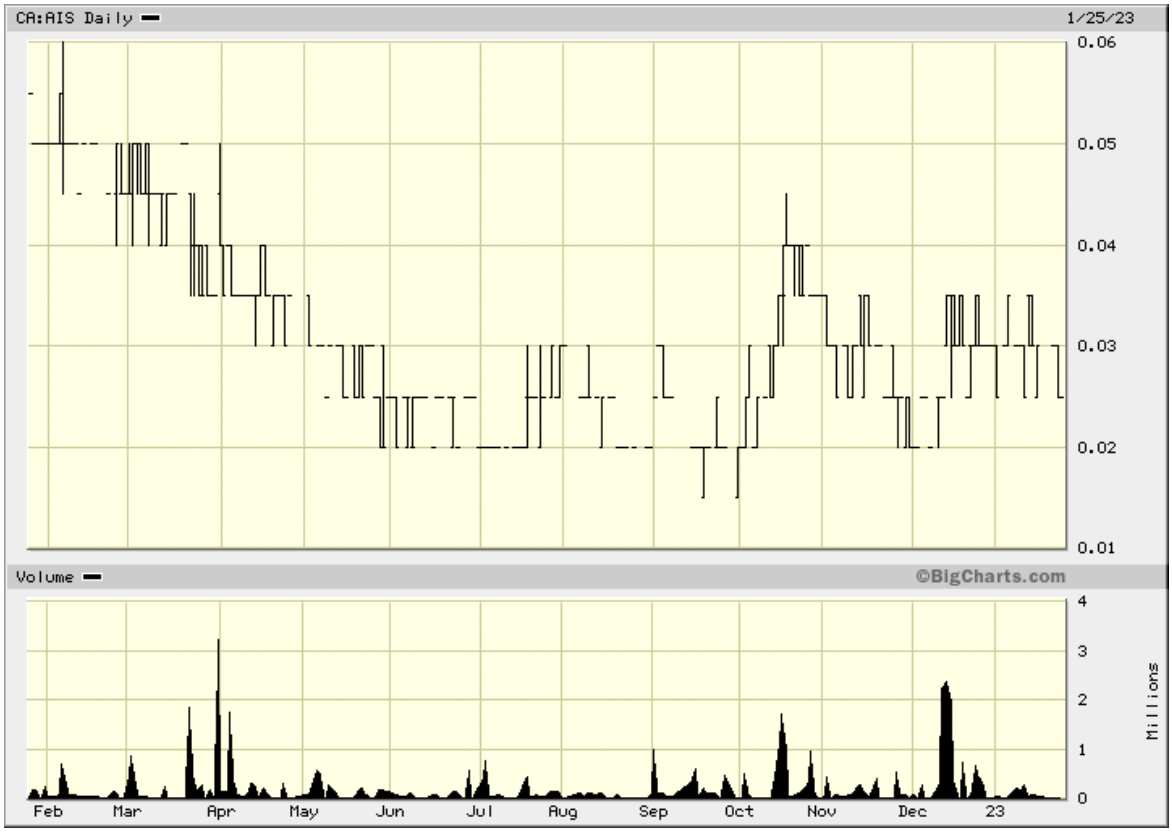
Lithium rather than as just a passenger on the Lithium Express.

The recent reconfiguration of personnel on the board removes potential conflicts of interests and clears the deck for some rethinking of direction.

A.I.S. is ripe for restructuring on a number of fronts with a name change, to escape the rather bland current moniker, being the easiest of refinements to implement. The mix of Argentine Lithium assets and Victorian gold was always destined to put one or the other of the asset silos in the shade when the other was in the ascendant. Therefore, a demerger of the Australian assets onto the ASX would make more sense, creating two pure play entities.

However, to put things in perspective, the company's market cap is currently less than the amount of money due to it for the 20% stake in the Candela II project. While this may not come to fruition, all the other assets plus NSRs, residuals and licenses (not to forget the Buda Juice stake) would appear to be worth significantly more than the currently minuscule market capitalization.

Thus, we are initiating AIS Resources with a **LONG** rating with a 12-month target price of CAD 7 cts.



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