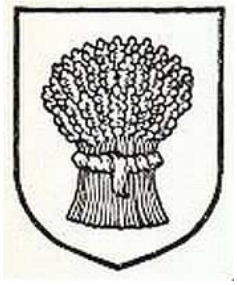
Monday, June 21, 2021



HALLGARTEN & COMPANY

Initiation of Coverage

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MetalsTech

(ASX: MTC, FSE: MT1)

Strategy: Long

Key Metrics	
Price (AUD)	$0.22
12-Month Target Price (AUD)	$0.68
Upside to Target	209%
12mth hi-low (AUD)	$0.105 - $0.345
Market Cap (AUD mn)	$33.84
Shares Outstanding (mns)	153.8
Fully diluted (mns)	174.4

MetalsTech

Gold Rising in the Carpathians

- + In a nifty deal, MetalsTech have managed to secure one of the most promising gold projects in Central Europe
- + Stunning results from recent drilling show the project has potential to be expanded laterally and at depth
- + Latest resource published in recent days shows strong 50% uplift in estimated resource on limited drilling. Further drilling could expand this significantly
- + Spin-out of Lithium assets in Canada brings an imminent payday for both MetalsTech and its shareholders (via distribution of holding to stockholders)
- + Sale of royalty on Lithium project brings cash into MetalsTech to fund exploration and obviates the need for financings in the immediate future
- × Gold appears range-bound for the moment but at attractive levels to advance the Šturec to profitable production
- × Changes to mine plan should mitigate danger of local opposition, but the risk of agitation against an eventual mine "build" should not be discounted

Slovakia back on the Map

It may be a somewhat glacial process but gradually Europe's old mining districts are coming back the life. In particular the Carpathian Mountains, being the western extremity of the famous Tethyan Belt, are an obvious focus for reexamination.

MetalsTech identified the Šturec property as an opportunity in late 2019 and the closed on it in early 2020 just as the shutters started coming down due to the pandemic.

The company had however started life as a battery metals play.

Šturec appealed far more to MetalsTech's management as a strong possibility for development, particularly in a context where gold had regained momentum. The company thus advanced with exploration in Slovakia with a goal of moving into the category of developer while looking for creative solutions to liberate value from the Lithium portfolio. Both of these strategies have started to bear fruit in mid-2021.

Šturec is really an underground mining opportunity (whereas the previous holders, Ortac, were looking at a large open-cut which had permitting challenges) with, potentially, low CapEx potential and low environmental footprint with the majority of waste rock being placed back underground. Then there is an opportunity to maybe revisit a significantly smaller open cut operation (less than 1:1 strip ratio) later

in the mine life once the operator has proven good corporate citizenship.

Over and beyond this the project is getting a substantial boost from the massive leap in the resource estimate (up by 50%) that was announced in mid-June. This was from a quite limited drill campaign. The perspective is for the resource to continue to expand with the exploration effort and we would not be surprised to see it reach two million ounces by the end of 2021.

Meanwhile the spin-out of the Lithium assets (with a record date in August 2021) offers a short-term payday for investors.

In this initiation of coverage we shall look at the progress thus far at Šturec, its history and the plans going forward and also we look at how the Lithium assets are being monetized.

Corporate Background

MetalsTech initially listed on the ASX in February of 2017, in the first flurry of what we were calling the Second Lithium Boom (the first being in 2009-10). The company's principal assets at the time were hard-rock Lithium projects located in Quebec in a zone known for its high-grade Lithium discoveries and a supportive government.

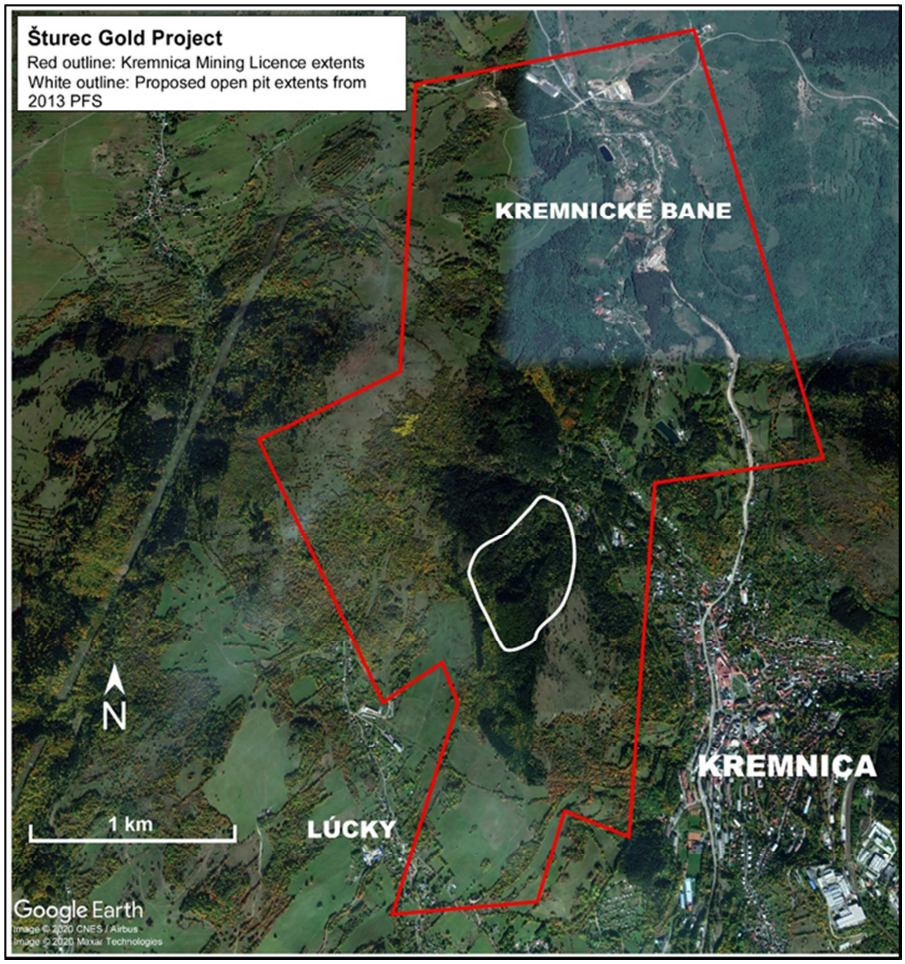
Alas, the Lithium assets were becalmed after the battery metals furore of 2017 fizzled on misinformed comments on potential Lithium supply by a Bulge Bracket firm on Wall Street. Nevertheless, positive results from the 2017 exploration campaign had resulted in MetalsTech entering an agreement with Chinese chemicals manufacturer, Wuxi Baichuan Chemical Industrial Co Ltd, which bought a 10% stake in the company.

As 2020 progressed battery metals, and in particular Lithium, started to revive. Like so many other explorers though in that space, little work had been done in 2018-19 due to straightened finances and investor disinterest, combined with the mood swings of pundits between the attractions of hard-rock versus brine the favoured Lithium source.

Šturec

The Šturec Gold Project is located in central Slovakia between the town of Kremnica and the village of Lučky, 17km west of central Slovakia's largest city, Banska Bystrica, and 150km northeast of the capital, Bratislava. The Šturec project is located within the Kremnica Mining Licence Area that covers an area of 11.8km^2.

There are several settlements around the project area. The nearest to the potential mine site are the town of Kremnica (with a population of 5,822 in 2001) and the village of Lučky. In the immediate vicinity of the project site, land is mainly used for forestry, livestock farming and recreational activities such as hiking.



Land in the vicinity of the deposit is mostly state-owned. Some of the land to the south of the orebody and much of the surrounding land is owned by Kremnica Municipality.

The Šturec project is located in an area with good existing power, transport, communications and water supply infrastructure.

History

Gold mining began at Sturec in the 8th century with historical production from the mine totaling 1.5 mn ounces (mn oz) of gold and 6.7mn oz of silver. The majority of the production was from underground mine workings, although some of it was from small open-pits.

Historical operations utilised gravity separation followed by amalgamation, with reported gold recoveries of up to 50%. A process plant incorporating flotation was built in 1935, and the flotation concentrate was amalgamated, recovering of the order of 70% of the gold. This plant was converted to cyanide leaching in the mid-1980s, which improved the gold recovery to the order of 80%. This plant had a capacity of the order of 30 tpd of ore, and was shut down in 1992.

The State-owned company, Rudne Bane, subsequently operated an open pit mine at Šturec from 1987 to 1992 and produced 50,028 tonnes of ore averaging 1.54g/t Au.

The gold mine was purchased by Ortac Resources (now Arc Minerals LON:ARCM) in 2009 and then acquired by MetalsTech in 2020.

The Deal

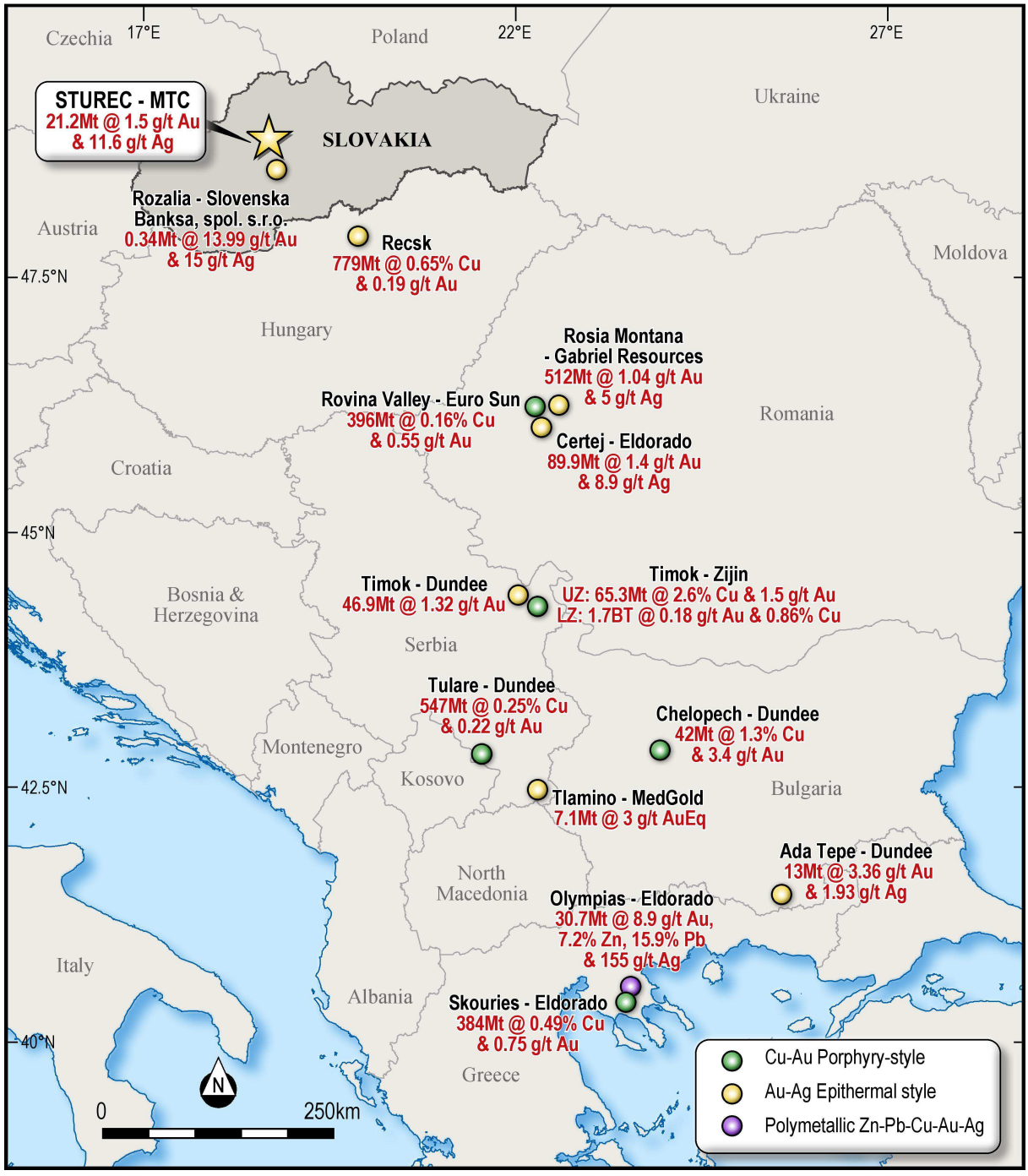
In February 2020, MetalsTech purchased a 100% interest in the Sturec project by exercising an option to purchase Ortac Resources (UK).

As it had announced on 30 December, Arc said it would receive two phased cash payments, being AUD$0.45mn (less the AUD$30,000 option fee at completion) followed by a second payment of AUD$0.3mn within six months of completion.

Arc said that if, at any time in the period between 19 November 2021 and 19 November 2024, the Šturec JORC indicated and measured resource exceeds 1.5 million ounces of gold at a grade greater than 2.5 grams per tonne, including recoverable silver equivalents, then MetalsTech would also pay Arc a

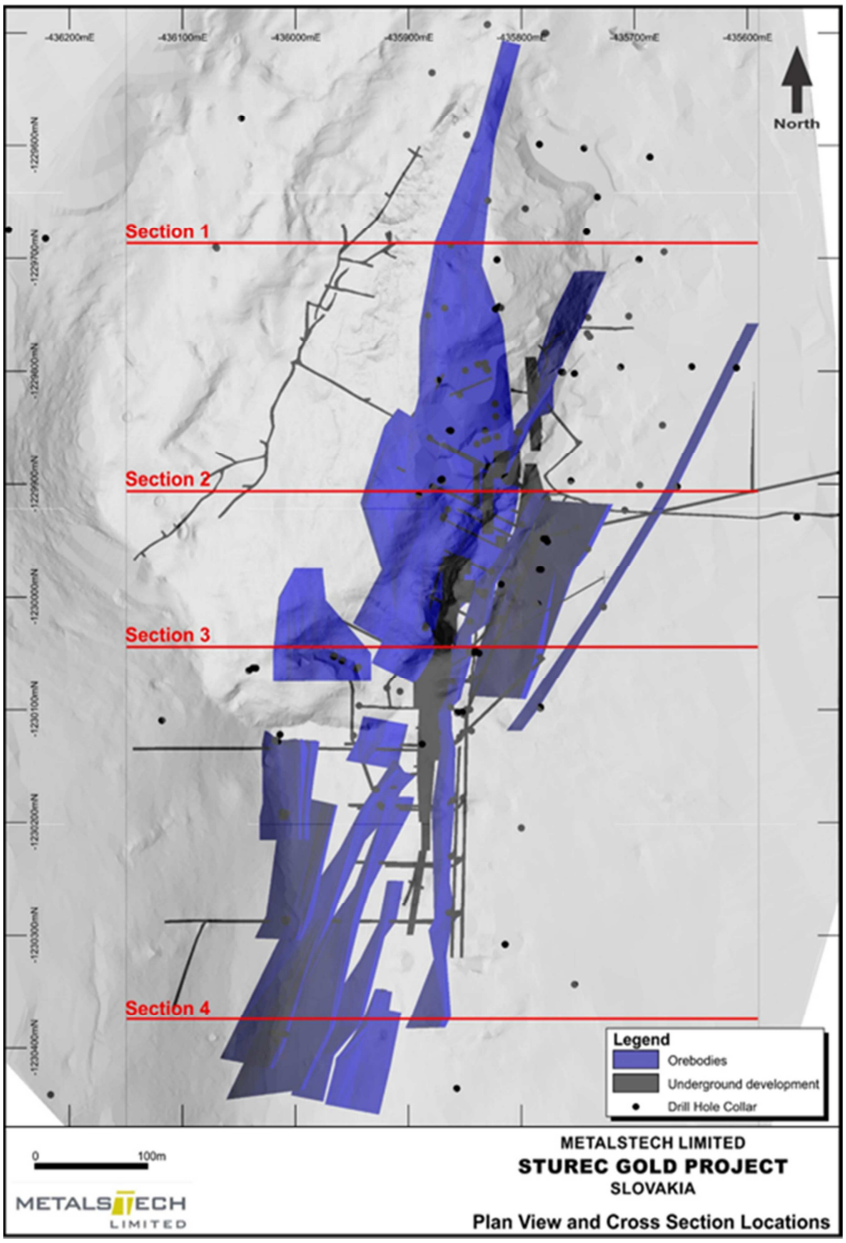
further AUD$2.00 royalty per additional ounce of gold, which would be capped at seven million ounces.

Any consideration due under the resource upgrade royalty could be satisfied in either cash, or by the issuance of ordinary shares in the capital of MetalsTech.



Geology

The geology of the Šturec deposit as a whole is well established. It is part of a low sulphidation Au-Ag epithermal system and is hosted predominantly in Tertiary andesite flows and tuffs, and lesser diorites and rhyolite dykes.



Mesozoic limestone underlies the Tertiary volcanic rocks that host the mineralisation. Structurally, the Šturec vein system is reported as occurring in a horst and graben system with the area being comprised of a series of steeply dipping, north to northeast striking faults which cut through the stratigraphy.

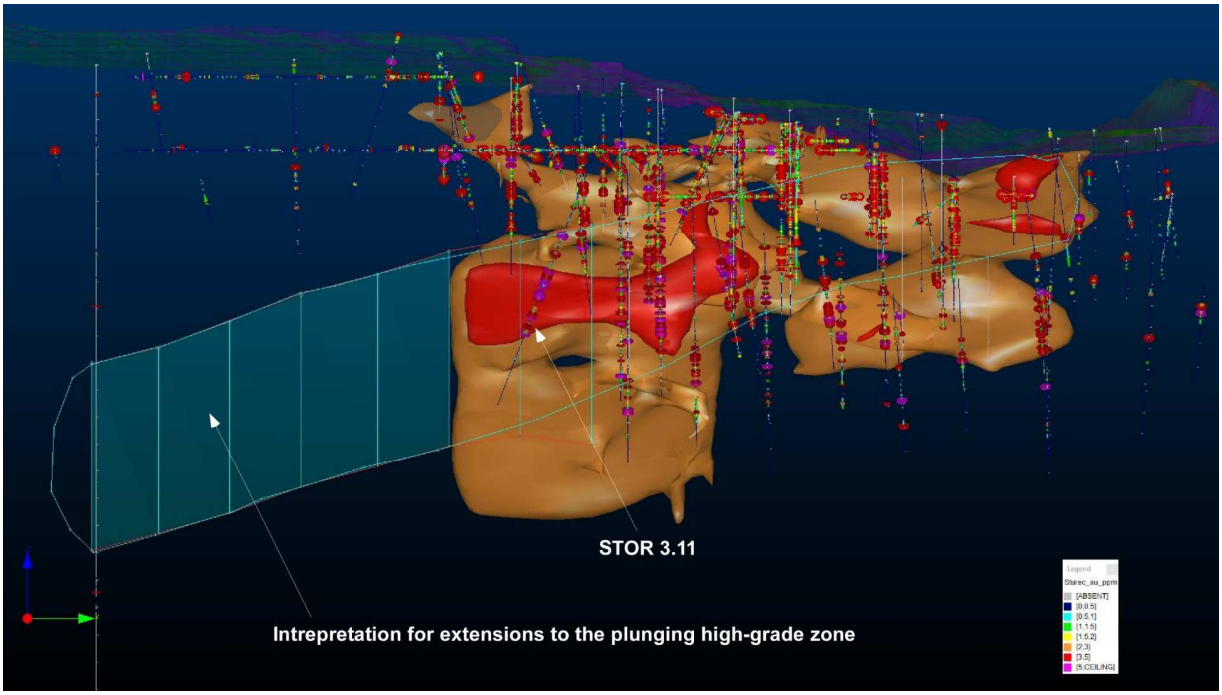
The principal vein system (locally known as the First Vein System) strikes north to northeast and includes the Šturec Deposit. A second vein system is located to the east and strikes north to northwest, however due to its proximity to Kremnica town this system is not currently considered viable.

Mineralisation is in the form of banded to massive quartz veins (which vary in size), sheeted veins, quartz stockwork and silicified hydrothermal breccias. Alteration consists of a core of silicification and large zones of propylitic and argillic clay alteration. Mineralised veins and alteration zones strike approximately north to northeast along a major structural zone, which is mineralised for at least 6.5 km in length. Gold and silver is typically localised in areas immediately adjacent to the main vein zones. Vein mineralogy consists of quartz, calcite, adularia, sericite-illite and lesser chalcedony.

The main mineralised zone is the Šturec deposit, which is located in the southern portion of the central First Vein System. This zone is continuously mineralised for 1200 m along strike and is typically 100 to 150 m wide and extends to a known depth of 300 m.

The main vein within the Šturec deposit is the Schramen Vein, which strikes north, dips steeply to the east, is up to 100 m wide, and continues along strike for 500 m. The Schramen is a massive to sheeted quartz vein which thins to the north, south and at depth.

Gold grades across the whole of the Šturec deposit average between 0.9 g/t and 1.8 g/t, with silver/gold ratios approximately 8.5:1. Gold and silver grades are locally much higher within the main Schramen vein and, as a result, this was the principal target for the previous underground workings.



Above can be seen a 3D visualisation of the mineralisation within the Mineral Resource displayed as iso surfaces at >0.5g/t Au in orange and > 3g/t Au in red (shown with transparency so that the down hole assay results can be seen). The figure also shows the location of STOR 3.11 relative to the boundary of the Sturec Mineral Resource.

The occurrence of gold is free and in non-refractory association with sulphides and with silver as electrum. Other associated silver minerals include polybasite, pyrargyrite, and argentite. Sulphide minerals occur as pyrite, marcasite, chalcopyrite, stibnite, sphalerite, and galena.

In the northern part of the Šturec deposit a northeast striking vein system joins the Schramen vein. This vein system projects southwest away from the Schramen vein and outcrops approximately 100 m west. This vein system bends to the south and strikes parallel to the Schramen vein; it dips 40° to 55° to the east and re-joins the Schramen vein at depth. Zones of stockwork gold mineralisation occur between the two principal veins.

Historic mining in the area has resulted in mined-out portions of the Šturec deposit (both on surface and underground, principally targeting the Schramen vein). Where mining has occurred underground areas have been backfilled with old mine waste. A large fractured or brecciated (collapse) zone also exists in the upper part of the system.

Historic Exploration

The Slovak Geological Survey carried out extensive exploration in the Šturec area from 1981 to 1987, including extensive adit and cross-cut development within the Šturec zone.

Further core and RC drilling was undertaken by Argosy Mining Corporation and Tournigan Gold Corporation (120 holes totalling 25,000m) prior to Ortac Resources acquiring the project in 2009.

During the period 1997-2009 there were three resources published:

- 1997 as part of a Mineral Resource estimate calculated by Western Services Engineering Inc;
- 2004 as part of a Mineral Resource estimate by Smith and Kirkham;
- 2006 as part of a Mineral Resource estimate by Beacon Hill;

The consultants Snowden completed an updated Mineral Resource estimate of the Šturec project on behalf of Kremnica Gold (a subsidiary of Ortac) in April 2012. The resulting Mineral Resource Estimate relied upon geological data undertaken by Ortac, including sampling from adits, diamond drilling (from surface and underground), reverse circulation surface drilling and trenches. Ordinary kriging and multiple indicator kriging were used for grade interpolation.

Ortac Resources undertook a pre-feasibility study (PFS) for the project which was released in 2013. Based on that PFS, the mine was expected to produce up to 1.5 million tonnes per annum (Mtpa) with an average grade of 1.7g/t Au and 14g/t Ag.

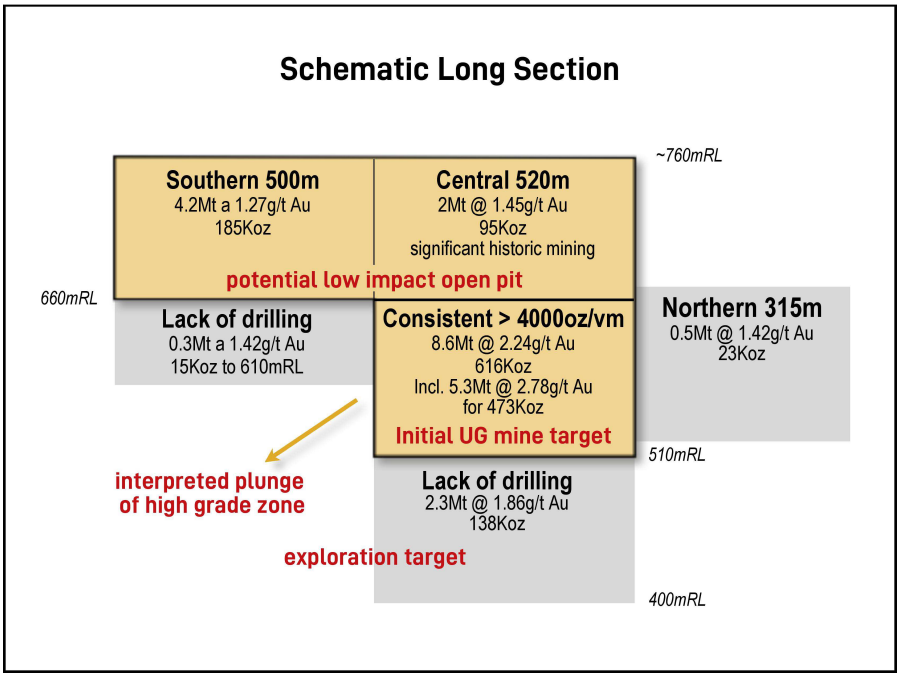
Exploration Under MTC

MetalsTech took ownership virtually on the eve of the pandemic and the global shutdown that it occasioned. This had a particularly cramping effect with management “trapped” in Australia and various EU countries applying and then changing in rapid succession bans (or openings) of travel.

Nevertheless the company could undertake a drilling campaign, beginning in July 2020, with

underground diamond drilling from within the Andrej Adit at the Sturec mine. In late May the company announced the results of its first diamond drilling campaign at Šturec hit visible gold in nine out of 16 holes with bonanza hits in 11 out of 16 holes. These included 70m @ 9.23 g/t Au and 7.8 g/t Ag, including bonanza 1m @ 584 g/t Au and 333.0 g/t Ag.

The schematic long section at the right is illuminating.



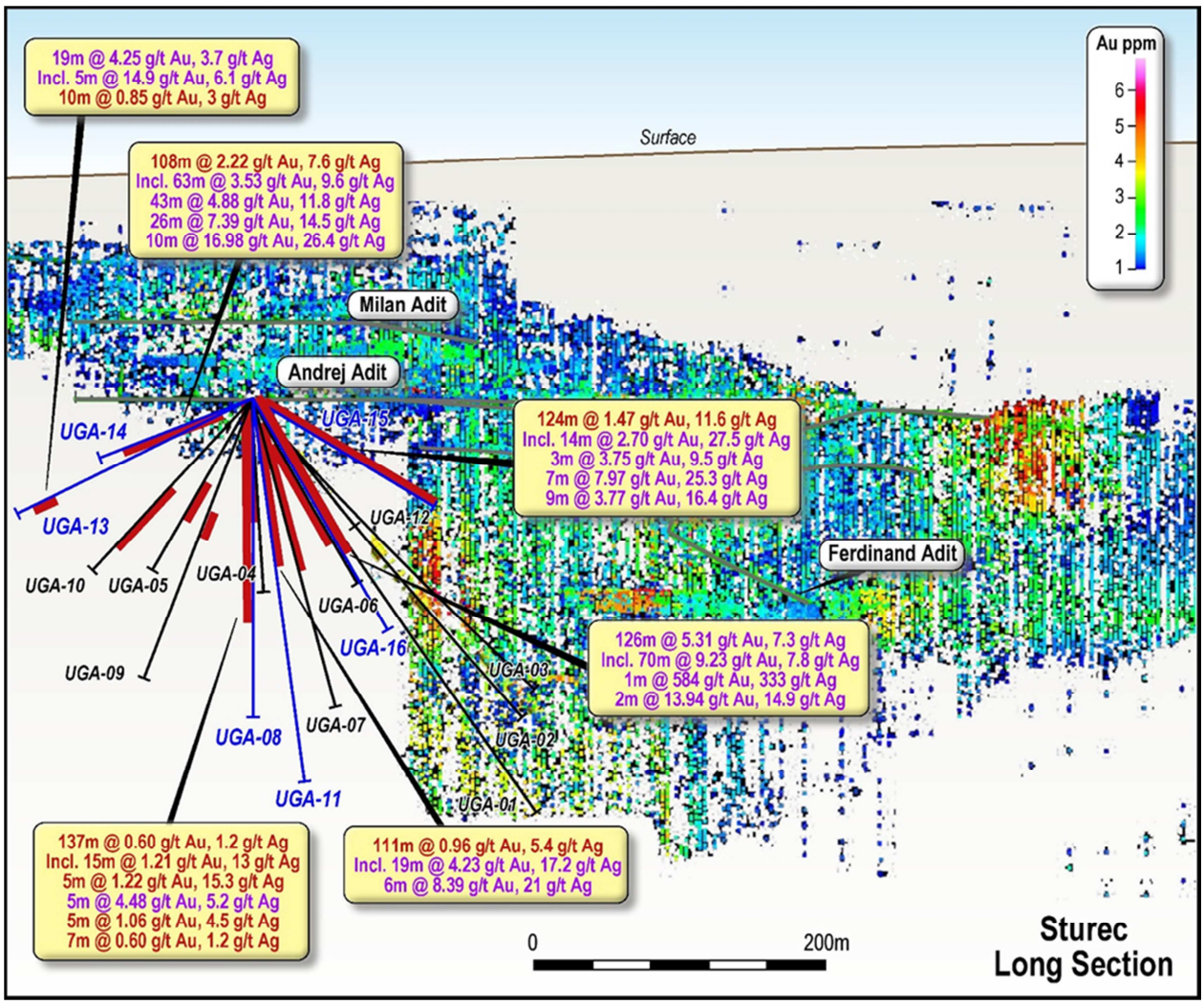
It is the area to the left marked "Lack of drilling" where the most recent campaign has been focused with its most encouraging results. Ergo, the deposit is currently open to the north and south and at depth.

On the following page can be seen a splay of drill holes that have been done from underground thus allowing much better access to the previously undrilled parts of the deposit.

The exceptional bonanza results, namely 1m @ 584g/t Au & 333g/t Ag from 41m down hole (hole UGA-16), in the latest round of the Phase I drill program powered up the stock price of MetalsTech in the last days of May 2021.

The highlights of the program were:

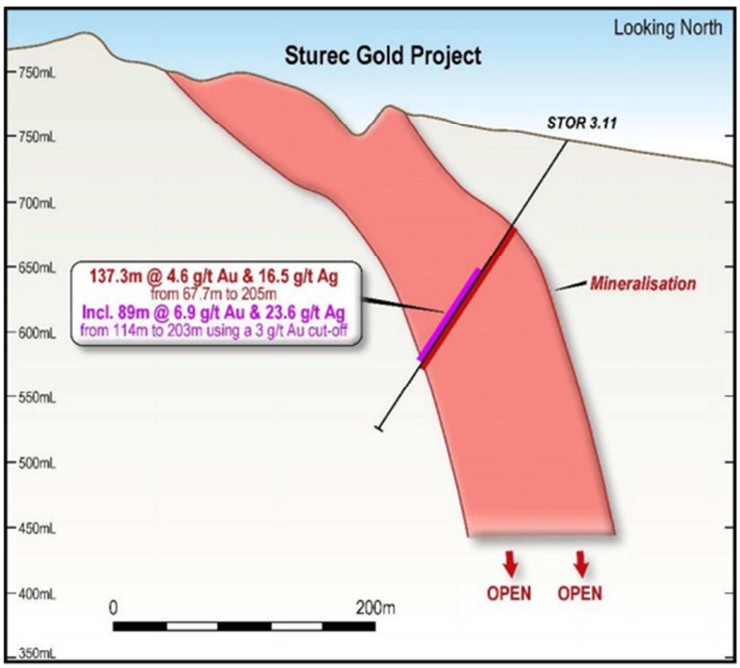
+ UGA-16 intersected 70m @ 9.23 g/t Au and 7.8 g/t Ag from 40m (0.5g/t Au cut-off, downhole thickness) within a broader zone of 126m @ 5.31 g/t Au and 7.3 g/t Ag from 1m (0.3 g/t Au cut-off, downhole thickness)



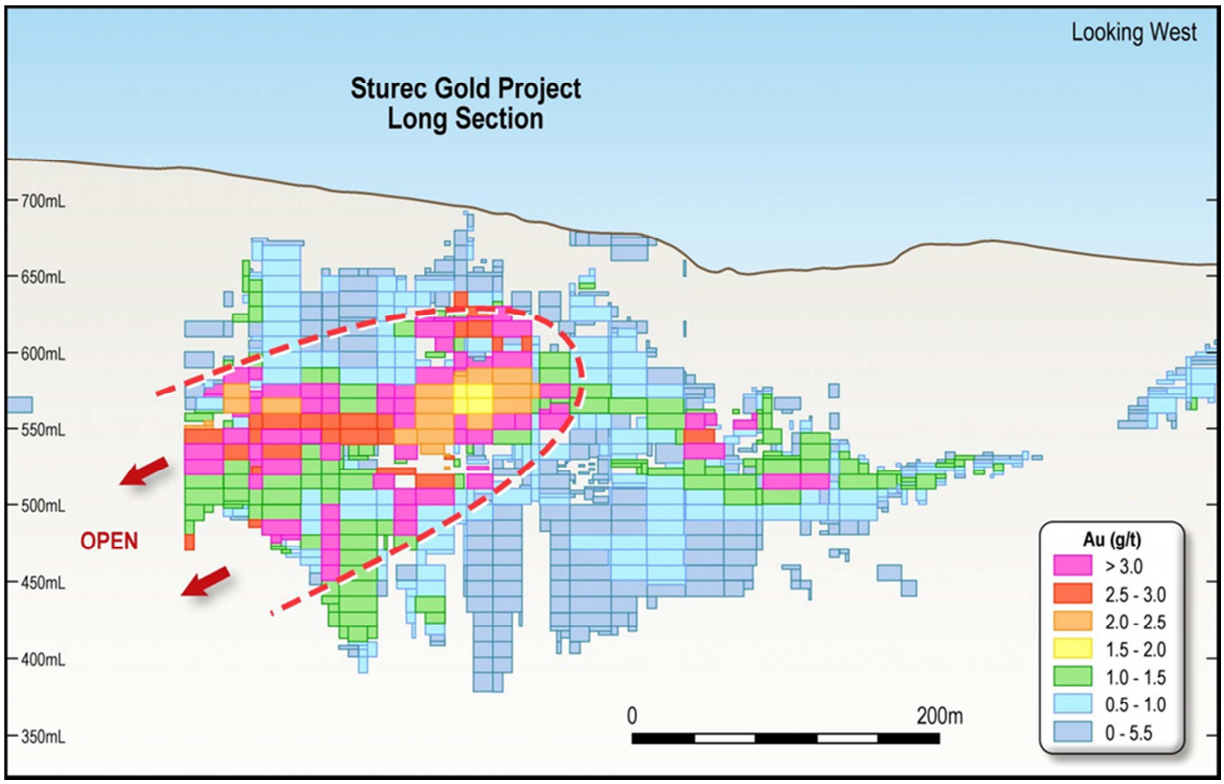
- UGA-15 intersected 124m @ 1.47 g/t Au and 11.6 g/t Ag from 3m (0.3g/t Au cut-off, downhole thickness) including:
  - 14m @ 2.70 g/t Au and 27.5 g/t Ag from 17m (1g/t Au cut-off)
  - 3m @ 3.75 g/t Au and 9.5 g/t Ag from 52m (0.5g/t Au cut-off)
  - 7m @ 7.97 g/t Au and 25.3 g/t Ag from 64m (1g/t Au cut-off)
  - 9m @ 3.77 g/t Au and 16.4 g/t Ag from 93m (0.5g/t Au cut-off)

- UGA-14 intersected 108m @ 2.22 g/t Au and 7.6 g/t Ag from 26m (0.3g/t Au cut-off, downhole thickness) including:
    - 63m @ 3.53 g/t Au and 9.6 g/t Ag from 71m (0.5g/t Au cut-off)
    - 42m @ 4.98 g/t Au and 11.9 g/t Ag from 91m (1g/t Au cut-off)
    - 10m @ 16.98g/t Au and 26.4 g/t Ag from 95m (2g/t Au cut-off)
- UGA-13 intersected 19m @ 4.25 g/t Au and 3.7 g/t Ag from 152m (0.3g/t Au cut-off, downhole thickness) including:
    - 5m @ 14.90 g/t Au and 6.1 g/t Ag from 157m (0.5g/t Au cut-off)
- UGA-11 intersected 111m @ 0.96 g/t Au and 5.4 g/t Ag from 15m (0.2g/t Au cut-off, downhole thickness) including:
    - 19m @ 4.23 g/t Au and 17.2 g/t Ag from 107m (1g/t Au cut-off)
    - 6m @ 8.39 g/t Au and 21.0 g/t Ag from 117m (3g/t Au cut-off)
- UGA-08 intersected 137m @ 0.6 g/t Au and 1.2 g/t Ag from 0m (0.2g/t Au cut-off, downhole thickness), including:
    - 15m @ 1.21 g/t Au and 13.0 g/t Ag from 0m (0.5g/t Au cut-off)
    - 5m @ 1.22 g/t Au and 13.0 g/t Ag from 32m (0.5g/t Au cut-off)
    - 5m @ 4.48g/t Au and 5.2 g/t Ag from 87m (0.3g/t Au cut-off)
    - 5m @ 1.06g/t Au and 4.5 g/t Ag from 126m (0.3g/t Au cut-off)
    - 2m @ 1.22g/t Au and 2.7 g/t Ag from 135m (0.3g/t Au cut-off)

The drill team continued to hit thick high grade gold intersections as it stepped out from the existing resource. This recent drilling intersected a southerly plunging, high-grade mineralisation zone, which has significantly contributed to the increase in the size and confidence of the Mineral Resource.



Section 1,230,050N through the Sturec Mineral Resource, showing STOR 3.11



Resources

In recent days, the company has published an updated resource prepared by Measured Group Pty Ltd to prepare an updated Mineral Resource estimate for the Sturec Gold Mine under the guidelines of the JORC Code (2012).

The resource showed a quantum leap, of almost 50% from 1mn ozs Au to 1.5mn ozs Au. The gold equivalent resource (including silver credits) increased to 1.63mn ozs. Meanwhile the resource confidence increased from 75% Measured & Indicated to 93% Measured & Indicated.

The previous resource for Šturec was very dated, having been prepared in 2012 by Snowden for the PFS which was prepared by SRK in 2013. As such it uses presumptions on gold and silver that now appear to be ancient history, such as $1,500 and $20 respectively.

The Mineral Resource estimate was calculated using geological data, including channel sampling from adits, diamond drilling (from surface and underground), reverse circulation surface drilling and trenches. The geological data includes 245 drill holes for a total of 57,089m.

Sturec Mineral Resource Estimate

Resource Estimate above 0.26 g/t Au cut-off and within an optimised open pit shell

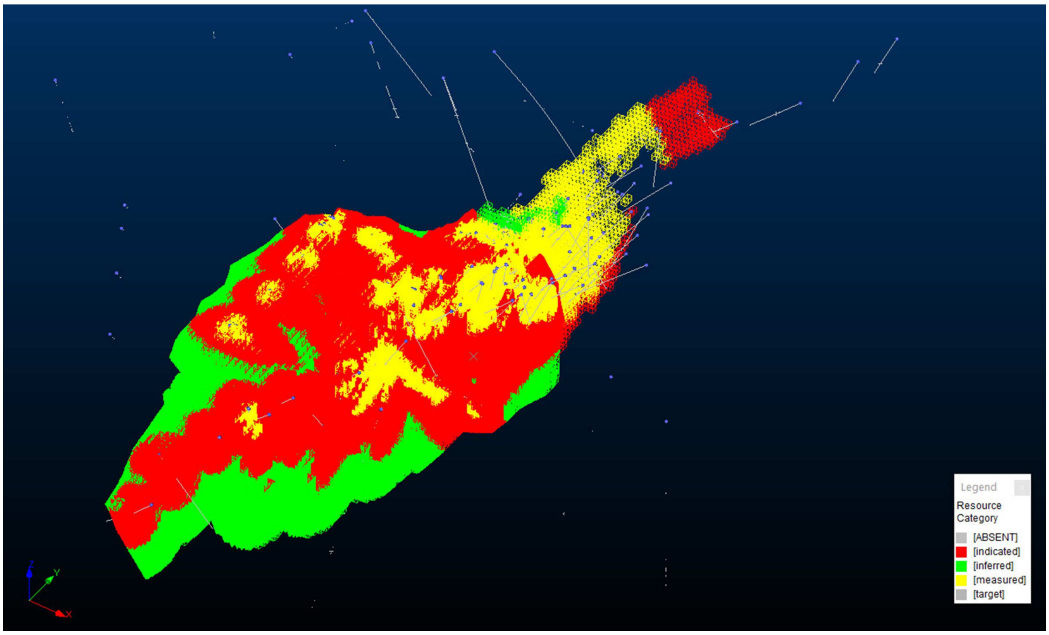
Category	Tonnes 000 t	Au g/t	Ag g/t	Au Eq. g/t	Au ozs	Ag ozs	Au Eq. ozs
Measured	15,340	1.43	12.04	1.53	704,000	5,940,000	752,000
Indicated	18,438	1.20	6.74	1.25	709,000	3,995,000	742,000
Measured + Indicated	33,778	1.30	9.15	1.38	1,413,000	9,935,000	1,494,000
Inferred	4,717	0.72	6.56	0.77	109,000	995,000	1,611,000

Resource Estimate above 2 g/t Au cut-off: outside optimised open pit shell

Category	Tonnes 000 t	Au g/t	Ag g/t	Au Eq. g/t	Au ozs	Ag ozs	Au Eq. ozs
Measured	30	2.9	21.18	3.08	3,000	21,000	3,000
Indicated	114	3.75	10.5	3.81	14,000	94,000	14,000
Measured + Indicated	144	3.39	25.6	3.57	17,000	115,000	17,000
Inferred	4	2.73	8.0	2.8	-	1,000	1,000

The updated resource used US$1785 per oz Au and US$27 per oz Ag. The Au equivalent calculation was:

AuEq g/t = ((Au g/t grade*Met. Rec.*Au price/g) + (Ag g/t grade*Met. Rec.*Ag price/g)) / (Met. Rec.*Au price/g)



Mine Plans

It is worth looking back to the pre-feasibility study (PFS) of Ortac Resources for the Šturec gold and silver project asserted that the project had "good economic viability" even though predicated upon much lower metals prices than are currently reigning.

The independent review by SRK estimated that Šturec contains 13.97mn tonnes of ore, grading 1.7 grams per tonne (g/t) of gold and 14.22g/t silver (1.9g/t gold equivalent).

The project has a net present value (NPV) of US$195mn (post-tax NPV of US$145mn) and an internal rate of return (IRR) of 30% at US$1,343 per ounce of gold equivalent. The project has a projected lifespan of 11 years with average annual production tipped to hit 71,000 ounces of gold equivalent.

The Life of Mine plan for the Šturec open pit had the following metrics:

- 11 year open-pit operation
- Production of ore is planned to be up to 1.5mn tpa with an average grade of 1.7 g/t Au, 14 g/t Ag (for a grade of 1.9 g/t AuEq)
- Waste to be mined is in the range of 2.4mn to 6.1mn tpa
- Total Material Moved will not exceed 6.95mn tpa due to conveyor capacity constraints
- RoM production takes place 312 days per year

- Daily mine production (ore and waste) is assumed to be over the life of the mine at some of 23k tpd; any fluctuations in production requirements will be accommodated by varying the quantity of equipment leased and/or the number of working days per year.

SRK's review recommended moving on to a bankable feasibility study.

In 2014, Ortac Resources (LON:OTC) has mined 400 tonnes of ore as part of the first phase of its underground trial at the Šturec deposit in Slovakia. Taken from the Andrej exploration adit, the ore was to be used for the metallurgy.

Project approvals and challenges

The history of the mine under its previous owners was not so felicitous. Progress at the start was good with Ortac receiving approval for a small-scale underground mining application in 2014. It then began trial underground mining at the mine in June of that year. The mine development activities were halted in 2014 after the Slovakian Government banned the use of the cyanide-based gold recovery process.

A regional court revoked the regulator's decision to award the mining permit in 2016, following which the regulator issued an amended underground mining permit paving the way for the restart of small-scale mining activities in July 2017.

The Central Mining Bureau issued an extension to the existing underground mining licence in October 2019, which was challenged by the local community. The State Mining Administration quashed appeals against the decision to issue the permit in February 2020.

The extension allows MetalsTech to undertake mining at the Kremnica Mining Licence for the period between 2019 and 2021 which it has used for the purpose of bulk metallurgical test work.

Evolution of Mine Plans

As noted, history intervened and buried the open-pit plans of the previous holder. With gold in its long protracted slump through most of the middle of last decade, Ortac headed off in other directions and Šturec passed onto the backburner.

It is still early days under MetalsTech's management (and unhelpfully impinged by the never-ending pandemic) but the company is moving towards a PEA/Scoping Study for publication in late 2021. Management are targeting 100-150,000 oz AuEq production per annum.

We might muse upon potential directions. A low impact mine as an underground operation below 660mRL (~100m from surface), targeting 3,000 ozs Au per vertical metre and 20,000oz Ag per vertical metre, with ~50m/yr vertical advance using cut and fill. Obviously an underground mine is not only practical but desirable as it massively reduces the footprint and the existing adits are unflooded and in

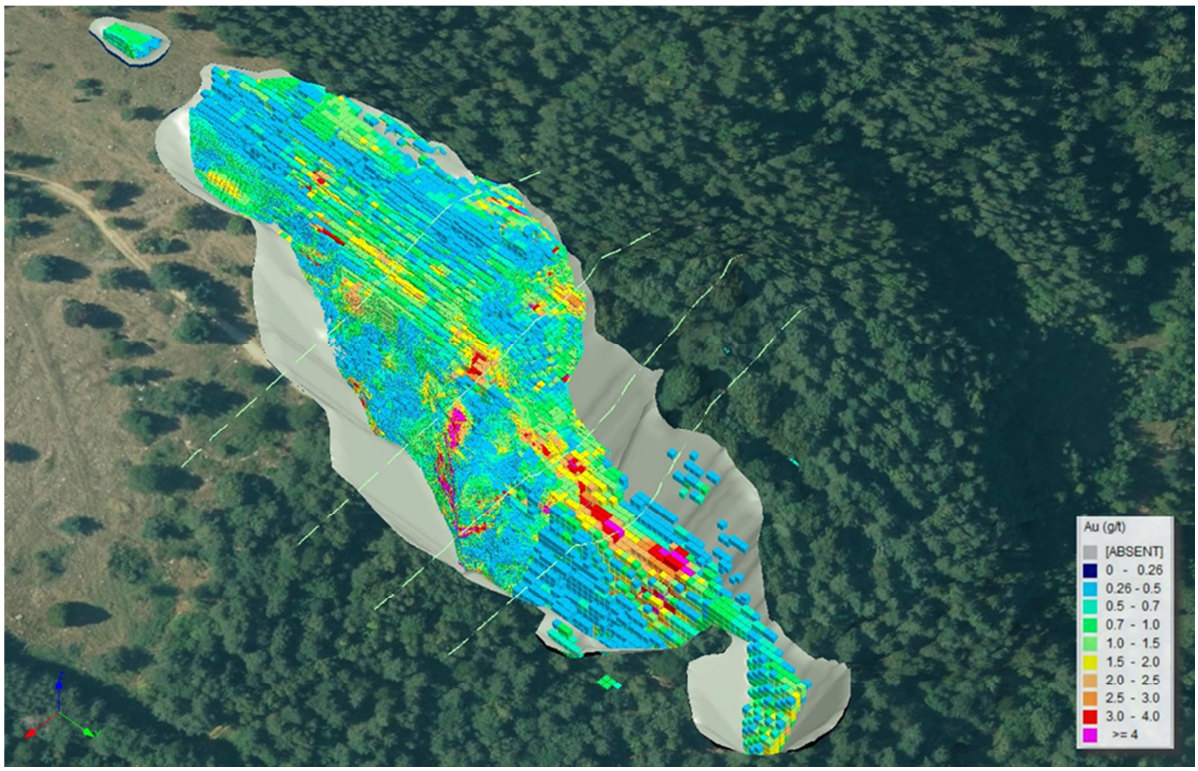
competent rock. These take the company right to the mineralisation (and potential mineralisation) with the massive strip and attendant risks of disgruntled locals carried by the previous plan.

It is worth noting that the recently upgraded resource had a high grade subset of 658Koz at 3.27 g/t Au which would be the likely foundation for any bulk underground mining plans.

A low CAPEX gravity separation and float concentrate operation to start would be supported by the attractive metallurgy with up to 74% reported for gravity separation rising to up to 88% after float. The 1.5mn ozs historic production is a clear flag that the metallurgy of the deposit is simple.

The management team also feels that, with the passage of time, there may be potential to come back later and mine shallow resources with a low impact open pit targeting 50m deep 1:1 strip ratio targeting 6mn tonnes grading at 1.4g/t containing ~280,000 ozs Au (based on the previous resource, which is now likely to be more ounces).

Despite the open-pit having gone on the backburner, it is still useful to refer to this as it is in terms of the area within/without the pit that the latest resource is couched. Here is the resource encompassed within the pit.



Living without Cyanide

Mention should be made of the receding constraints presented by the cyanide ban. Since 2014, the

efficiency of gravity separation and flotation circuits in traditional processing has improved such that there are potentially better economics around the production of a concentrate at site with transportation into nearby neighbouring jurisdictions where traditional cyanide treatment is permitted (e.g. Poland ~100km) for final ore treatment (possibly via tolling) or sale as a concentrate. The latter would involve only an insignificant trucking cost in the scheme of things, particularly with such a strong outlook on pricing for gold.

In 2014, many non-cyanide based processing technologies were still largely conceptual however now there are a range of non-cyanide based alternatives. For example, Barrick Gold and the CSIRO in Australia (Commonwealth Scientific and Industrial Research Organisation) commercialised a non-toxic thiosulphate based plant which first poured gold in late 2014. It has now been operating efficiently for five years and Barrick's Goldstrike Mine in Nevada can process at a rate of 5mn tpa on its thiosulphate circuit. MetalsTech incidentally acquired the exclusive rights to use CSIRO's thiosulphate technology in Slovakia in early 2020.

It is the management's opinion that both gold and silver have a reasonable potential to be recovered and sold from the Šturec ore using Thiosulphate Leaching/Electrowinning. Gold and silver recoveries from the Thiosulphate metallurgical test work in 2014 were 90.5% and 48.9% respectively. However there remains an element of technological risk with that path.

Environmental

A series of three heritage adit systems developed between medieval times and 1944 drain water away from the existing underground mine workings and have a large impact on the groundwater regime in the project area. The adit system drains groundwater to the level of the Main Heritage Adit at 250m ASL and discharges it directly into the Hron River about 12 km downstream of the Šturec deposit.

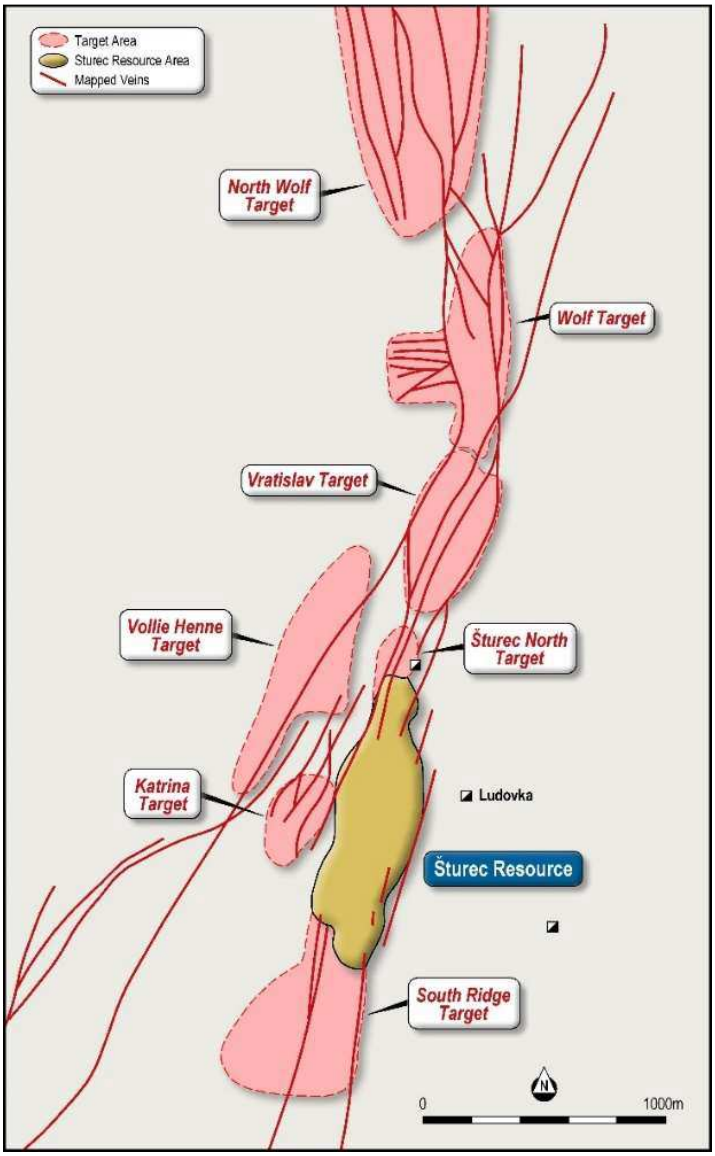
The PFS from 2013 noted that water quality monitoring data collected to that date did not provide evidence of significant acid rock drainage (ARD) pollution in the region of the Šturec Project site. Work on the ARD potential of the rock that will be mined at the Šturec site indicated that approximately 40% of the waste rock has some ARD potential. There is evidence to suggest that the reaction kinetics of the ARD generation is rapid and that oxidation of the exposed sulfides within the historical workings has been largely completed.

Further Upside

Numerous targets have been identified in addition to the existing Mineral Resource, which has the potential to increase provide resource expansion opportunities. These include the Vratislav and Wolf targets, which are located 1km and 2km, respectively, north along the continuation of the Kremnica vein structure and a large area of strongly clay and silica altered rhyolite, referred to as South Ridge, located south of the deposit, which is considered to be prospective for several styles of epithermal gold mineralisation.

The South Ridge Target is primarily a chalcedonic pyrite silicified breccia. The western footwall of the South Ridge Target is a moderately east dipping vein system that converges with the Schramen Vein at depth and along strike to the north. This vein system is comprised of three or more sets of veins which dip between 65° to 70° to the south-southeast and strike between 35° to 80° northeast.

These can be seen in the map, vis-à-vis the resourced area, in the map that follows:



The Lithium Spin-Out

MetalsTech has opted to take the spin-off route to provide its high-grade Lithium assets in Quebec, Canada, with the attention they deserve at a time when battery metals are booming. The assets, as

mentioned, were the original raison d'etre for entering the equities markets but have been overshadowed by the progress at Šturec.

After announcing the original concept of the demerger, a subsequent deal has come along which has made the proposal even more attractive for MetalsTech holders.

The Assets into Winsome

Under the spin-off, the Cancet, Adina and Sirmac-Clapier Lithium projects will form the core assets of the new ASX-listed company, Winsome Resources, allowing MetalsTech to focus on its pursuit of gold production.

Cancet is the most advanced of the three Lithium assets. It consists of 9,584ha, prospective for Lithium hosted in spodumene-bearing pegmatites, and is located approximately 185 km east of La Grande and bisected by the Trans Taiga Highway with high voltage power near the project.

The total landholding at the Cancet Lithium Project post-acquisition is approximately 12,746 hectares, hosting an exploration target of between 15mn tonnes and 25mn tonnes grading 1% to 2% Lithium oxide and 100ppm to 250ppm Tantalum.

The pegmatite body at Cancet remains to be delineated with a total defined strike length of approximately 1.2km. In addition to the high Lithium grades intersected near surface, significant tantalum mineralisation continues to be intersected. Drill hole MTC17-043 returned 689 ppm Ta_2O5 over 9.66 m including a peak sample assay of 2,223 ppm Ta_2O5. The zonation of the Lithium and tantalum within the mineralised body at Cancet is being investigated further, with geological modelling ongoing to further define the relationship.

In November of 2017 the company announced strong spodumene modal estimates from its 1,275 metre diamond drilling program at the Cancet Project. These showed that the mineralisation occurs at or near surface and extended the high-grade deposit down-dip and east along strike.

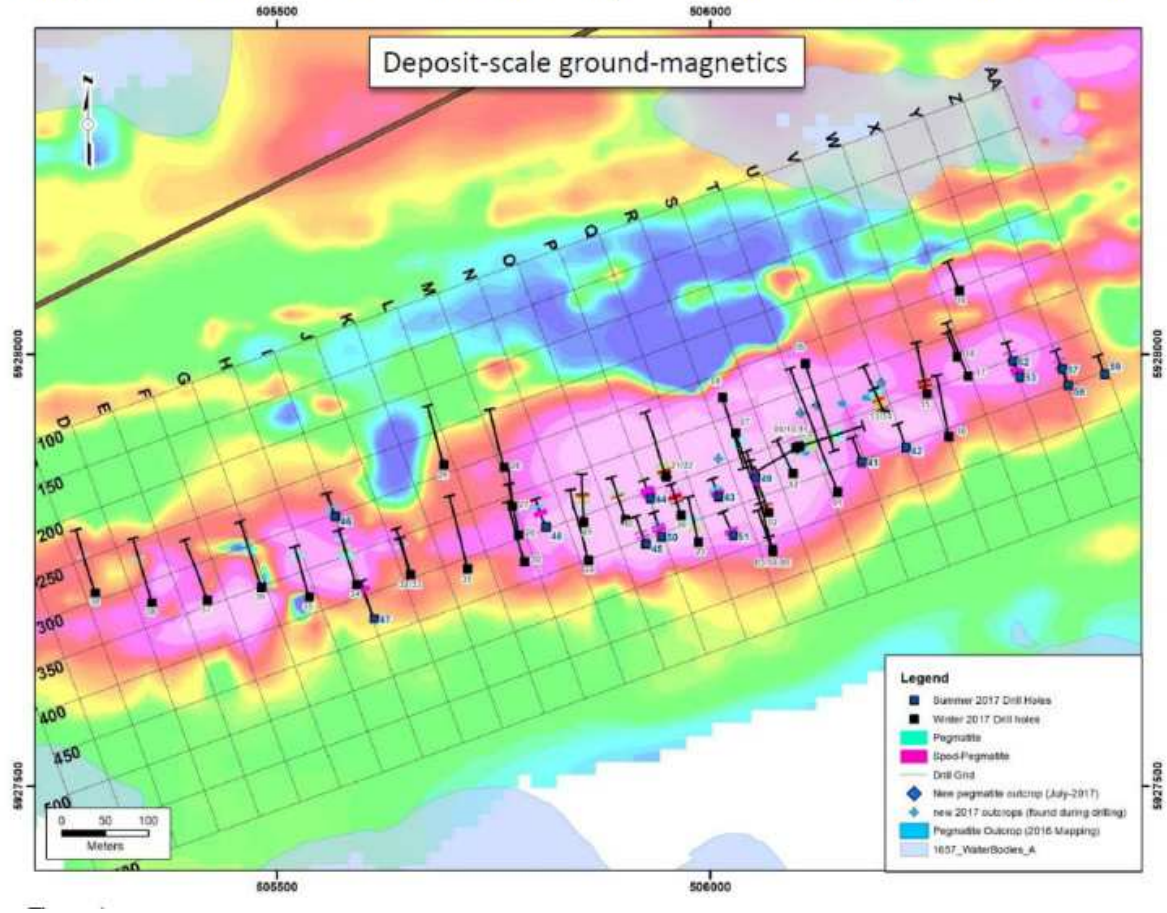
As part of Phase II, 19 diamond drill holes were completed with core samples sent for multi-element analysis including Lithium and tantalum.

The high-grade near surface mineralisation estimates included:

- A 16.4 metre pegmatite intersection with a spodumene mineralisation of 30% at 2.1 metres
- A 12.57 metre pegmatite intersection with a spodumene mineralisation of 20% at 5.4 metres

Phase I and II exploration included a 59-hole diamond drill program totaling 5,216m that returned results such as 18m at 3.71% Lithium oxide and 301ppm Tantalum and 21.46m at 2.24% Lithium oxide and 310ppm Tantalum.

The figure below illustrates the location of the completed drill holes from Phase I and Phase II.



Cancet boasts an independent JORC Exploration Target[1] of between 15Mt and 25Mt at a grade range between 1.0% and 2.0% Li_2O and 100ppm to 250 ppm Ta_2O_5.

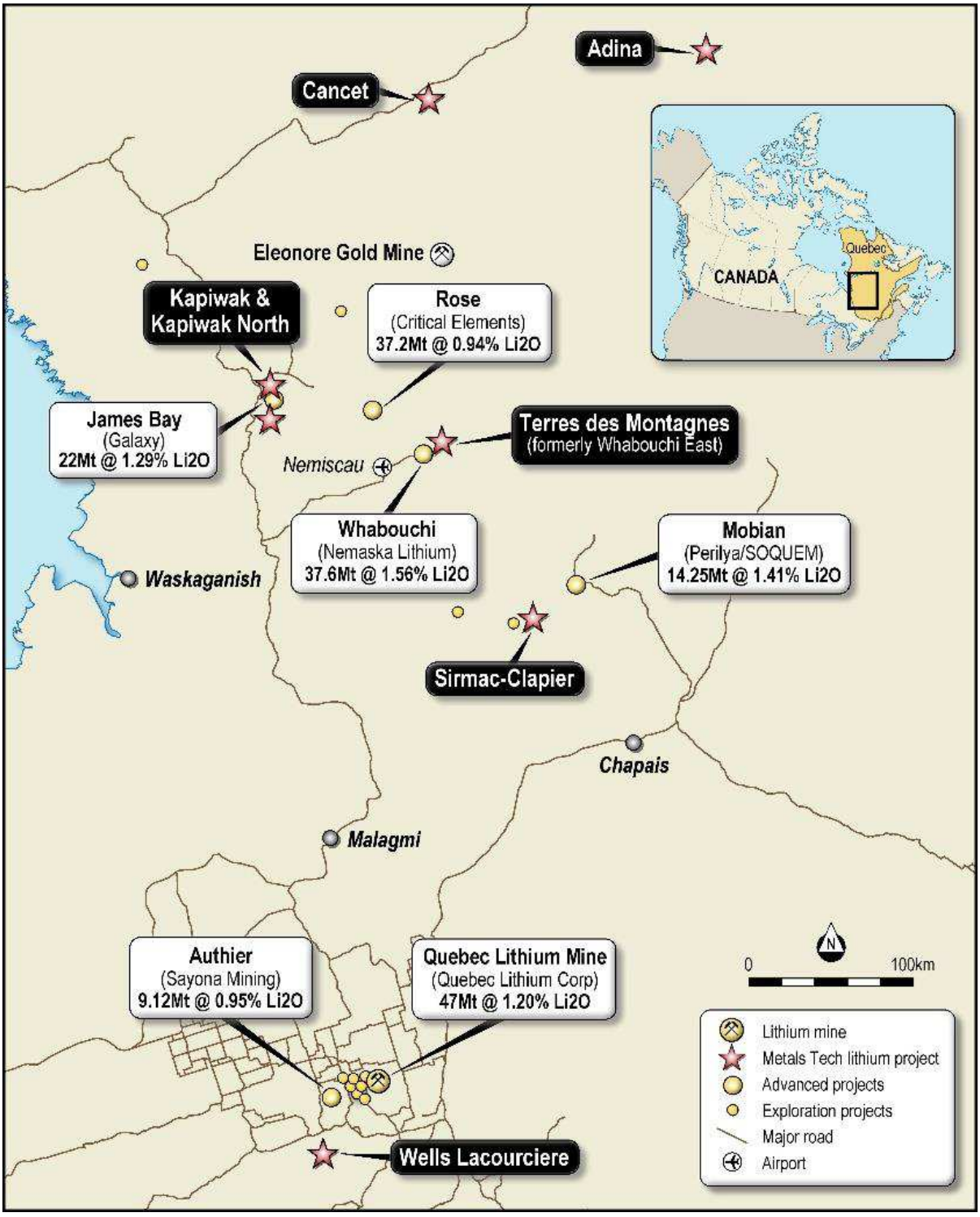
The Sirmac-Clapier project consists of outcropping Lithium hosted in spodumene-bearing pegmatites.

It is located approximately 200 kilometres South of the Whabouchi Lithium mine (of the ill-fated Nemaska Lithium) and 180 km by road Northwest of Chibougamau, Quebec. Road and power infrastructure traverse the property and it is close to a major mining town and airport infrastructure.

It is less than 3kms from the Sirmac project of Vision Lithium (TSXV: VLI), a high-grade deposit grading 2.04% Li_2O (which had previously been owned by Nemaska Lithium).

Spodumene crystals at Sirmac-Clapier range in size from 1cm to 30cm in size with an average of 10cm.

The amount of spodumene found in the pegmatite ranges from 5% to 30% volume. Extensive mapping of outcropping pegmatite dykes has been undertaken by previous explorers.



Adina is the least explored on the three assets in the deal. A Maiden diamond drilling campaign to commence at the Adina project in February 2018 designed to test 2km outcropping pegmatite, where surface outcrop has assayed up to 3.12% Li2O.

The 2016 field program at Adina identified an extensive outcropping pegmatite that was sampled over a strike length of ~680 m, and interpreted to potentially extend another 1.3 km along strike (total of approximately 2kms). Follow up drilling tested the grade, strike, and depth of the mineralisation sampled at surface.

The Deal

As part of this process, MetalsTech has interacted with Lithium Royalty Corp (LRC), an unlisted dedicated battery materials fund focused on acquiring revenue based royalties on the highest quality and lowest cost assets. LRC is Canadian-based.

The deal consists of three phases:

> *Phase 1*: a US$6mn cash payment by Lithium Royalty Corp paid to MetalsTech in consideration of the granting of a 3% Gross Revenue Royalty over non-core Lithium assets. It is worth noting that MetalsTech will retain gold rights over the tenements
>
> *Phase 2*: $9 million worth of shares in Lithium spinout vehicle Winsome Resources (ASX Reserved Code: WR1) will remain, initially, with MTC. These 45 million shares in Winsome will be distributed In-specie to MetalsTech shareholders in proportion to their holdings as at record date (which will be set post-shareholder approval). The ratio could be one bonus WR1 20c share for every 3.4 MetalsTech shares held assuming current shares on issue.
>
> *Phase 3*: Lithium Royalty Corp will also make a $3 million cornerstone subscription in the IPO Offer of Winsome at an issue price of 20 cents per share

The first aspects of the deal is novel because usually a “carved-out” royalty sees the funds going to the entity on which the royalty is held but in this case it goes to the existing owner. While the combination of the IPO and the subscription by LRC ensures the new entity comes out of the gate in a well-funded position.

MTC will receive 45 million shares in the new company and will distribute them on a pro-rata basis to its existing shareholders, who will also have the opportunity to subscribe for more shares in the new company under a $2mn priority participation offer.

The new company will seek to raise AUD$12mn to $18mn through an initial public offering of shares priced at 20c each. This will provide the necessary funds to advance resource definition and scoping studies at Cancet as well as maiden drilling at Adina.

Canaccord Genuity has been appointed Lead Manager to the Winsome IPO.

How this Plays Out

It is useful to consider the effects of this transaction for MetalsTech and its shareholders. The listing of Winsome will create a fairly unique exposure to a Lithium development story in Canada upon the ASX. Indeed it replaces MetalsTech as the most direct exposure. The only other asset we can think of on the ASX is the James Bay project embedded within Galaxy.

The main effect of the deal will be the distribution of stock which will break the nexus between MetalsTech itself and the legacy Lithium assets. The shareholders will end up holding the exposure to Winsome.

The royalty deal is novel though. This is opportunistic and in line with the recent trend of carving out royalties to raise funds from the burgeoning royalty company presence in the battery metals space. However, it has an extra twist that the funds go to the parent rather than to the spun-out entity. This obviates the need for MetalsTech to do a financing, in the short-term, to advance the work at Sturec.

The ex-date for the distribution shall be around the beginning of August.

Over and beyond these factors, with a potential combined value of $15mn from the royalty and the stock to be dividended out, that leaves a residual value of $25mn for Šturec, which is patently undervalued in light of the recent resource announcement.

Team & Board

Russell Moran is Chairman of the board. He has a background in strategic business development in the mining, oil & gas, technology and health sectors and has significant experience in mineral resource development. He is a proven natural resources and technology investor with a track record in building public companies as well as M&A.

He is Chairman of 3G Coal Limited, Zinciferous Limited and Wodgina Resources Limited. He was a former director of software consulting business K2Fly (ASX:K2F) and anthracite coal explorer Atrum Coal Limited (ASX:ATU).

Gino D'Anna, an executive director and a founder. He has significant primary and secondary capital markets experience and has extensive experience in resource exploration, public company operations and administration and financial management.

He has particular experience in Canadian Government and First Nations relations in the mining sector. He was a founding shareholder and founding Executive Director of Atrum Coal (ASX: ATU) which is developing the Groundhog Anthracite Project, located in British Columbia, Canada.

He is currently a Director of 3G Coal Limited, Non-Executive Director of Metals Australia Limited (ASX:

MLS) and K2fly Limited (ASX: K2F) and Director of Lac Grande Gold Pty Ltd.

Dr Qingtao Zeng, non-executive Director (Technical). He has completed a PhD in geology at the University of Western Australia in 2013. He has been engaged as a consulting geologist, principally working with CSA Global based in Perth and has a range of geological and commercial specialities.

He has been extensively involved in the Lithium exploration and development sector and through his strong network of contacts throughout China has helped clients complete a range of contracts relating to the supply or purchase of Lithium in the form of concentrate or direct shipping ores. He is also currently a Director of Kodal Minerals Plc.

Paul Fromson, CFO/Company Secretary, is a finance professional who has more than 30 years industry experience, including over 23 years with ASX listed resource companies. He has held a variety of senior positions including Company Secretary, Chief Financial Officer and Director in exploration and mining companies.

His resource industry experience extends over a number of commodities and he has worked on multinational joint ventures such as the Boddington Gold Mine and Worsley Alumina Projects through to a significant gold producer and a variety of exploration companies on projects within Australia and overseas.

He brings extensive experience in corporate matters, ASX listing rules and all forms of capital raising.

Dr Quinton Hills, exploration manager, is a geologist and minerals industry executive with 15 years' experience in project generation, exploration and project development across a broad range of base and precious metals projects in Australia, Botswana and Sweden. He has been the Exploration Manager for three ASX-listed mineral resource companies. He has a Ph.D in Structural Geology with extensive experience in highly deformed terranes and is an expert in resource target generation and expansion drilling.

Fiona Paterson, consultant, is an experienced risk engineer and corporate governance professional. She has held senior risk engineering roles with Italian oil and gas multinational Eni and was a former Director of K2Fly NL which sold its assets to K2Fly Limited (ASX:K2F).

Risks

In this instance we shall not consider the company's exposure to Lithium but focus on the project in question. Amongst the risks related to the gold project are:

- Gold price risk
- As yet unknown CapEx
- Financing is a challenge that comes and goes in the mining space and its sub-sectors
- Permitting issues with local activists

To posit gold price weakness is almost to be branded a heretic in some mining circles. However we were incredulous that gold shot over $2,000 per oz so rapidly and then were not surprised when it surrendered that level almost as quickly and then retreated $300 from its highs. This has dashed the hopes of those for whom Gold is destined to rise unerringly to $4,000. At current levels (around $1,850 per oz) projects that are not viable should not even be in consideration as this is a great gold price.

With the shift from an open-cut scenario to utilizing the extant underground adits, the main supposition one can make is that the capex will be significantly lower than posited with the earlier plan. If the company goes with the plan to ship concentrate to Poland or elsewhere for tolling then that shall also simplify the processing operations at the mine. Taking the underground approach will also lower significantly the need for tailings storage and moreover, dumps for the massive overburden that had been envisaged with the open pit. Underground also raises the possibility of tailings disposal utilising paste backfill in the already mined out parts of the existing mine.

Financing conditions rise and fall with sentiment towards gold… and with other dynamics. The last year has been a quantum better on the financing front for junior explorers. Despite the gold price retreat, from its highs, markets have still been very forthcoming in supporting placings and other financings despite competition from other resurgent metals (e.g. Copper or battery metals).

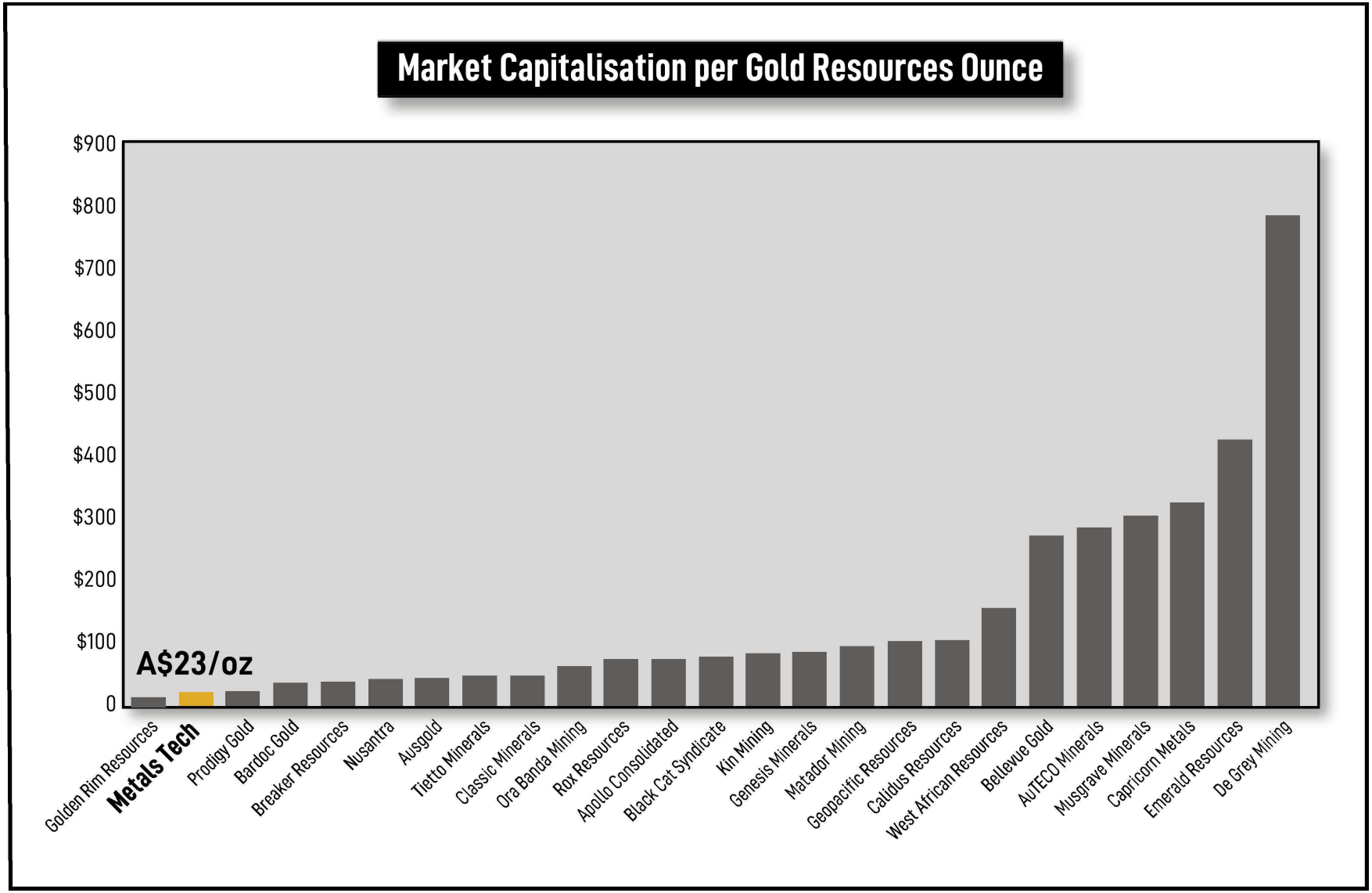
The risks of encountering local opposition can never be dismissed. However the move back to underground mining and possibly shipping concentrate elsewhere for processing (thus mitigating cyanide usage, which is banned) makes things significantly easier and removes a “target from the back” of the project. Over and beyond this, the financial travails of the EU itself (particularly in the wake of Brexit) and criticism of past largesse focused of “depressed” areas now means that many areas that felt they had the luxury of rejecting mine development, and the job creation it brings, are now having to focus on how they grow their local economies without “Make Work” schemes funded by the likes of Danish or Dutch taxpayers. It is this dynamic that is making mining seem like the only realistic option for many isolated locations that thought they could reject it in their areas after acceding to the EU money train at the end of last century. Slovakia is no exception.

Comps

There are various comparisons one could utilize to highlight the undervaluation of MetalsTech at this time but the one we prefer (in the wake of the resource upgrade) is Market Cap vs Ozs gold resource. This is shown on the following page.

Indeed one could also note that MetalsTech is even less for Au ounce because the market capitalization still has the embedded value of the Winsome Resources spin-out.

We suspect that, as in many demergers/distributions that the market cap will quickly rebound after the ex-date to levels close to current levels or higher.


Market Capitalisation per Gold Resources Ounce
$900
$800
$700
$600
$500
$400
$300
$200
$100
0
A$23/oz
Golden Rim Resources
Metals Tech
Prodigy Gold
Bardoc Gold
Breaker Resources
Nusantra
Ausgold
Tietto Minerals
Classic Minerals
Ora Banda Mining
Rox Resources
Apollo Consolidated
Black Cat Syndicate
Kin Mining
Genesis Minerals
Matador Mining
Geopacific Resources
Calidus Resources
West African Resources
Bellevue Gold
AuTECO Minerals
Musgrave Minerals
Capricorn Metals
Emerald Resources
De Grey Mining

Conclusion

Firstly we should note that the project at Šturec, as envisioned by MetalsTech is actually a mine reopening rather than a de novo creation. The previous owner's conception of how this resource might be developed was fraught as it went for a total overturning of what the mine had long been i.e. underground and replaced it with a large open-pit with a processing scheme that rubbed locals up the long way. We agree with management that this, cast as a revival of the mine, will be much more sellable and substantially less controversial.

By a curious twist of fate MetalsTech has gone from being a battery metals company (with Lithium and Cobalt exposures) to being a gold company and yet by keeping its Lithium exposure(s) in Canada it has been able to monetize them for its own (and its shareholders) benefit exactly when it is in need of funds to advance the promising Sturec project. In doing so it has been able to steer clear of the type of hefty dilution that can erode the share price as a company moves towards the advanced mining planning stage, before development.

As a result of the latest nifty deal with the Lithium spin-out it has managed to have its cake and eat it too. The time frame to this event is quite short with a record date in August 2021.

As for Sturec, the MetalsTech management team has learnt from the mistakes of Ortac (in pursuing an unpopular large-scale open-pit scenario) and yet the market has not given full credit for the change of tack. Over and beyond that, by eschewing the open pit the company (cognizant that it can access ore underground that the open pit could not) has been expanding the mineralized targets laterally, and at depth, through its recent (and planned) drilling campaigns. This would signal that previous explorers have, quite literally, only been scratching the surface.

The massive leap in the resource estimate, announced in recent days, in one fell swoop made the Sturec project some 50% larger in terms of gold ounces. This was from a quite limited drill campaign. The perspective is for the resource to continue to expand, with the planned increase in exploration, and we would not be surprised to see it reach two million ounces by the end of 2021.

There is expected to be a PEA/Scoping Study out by the end of the current year. With a rapidly expanding resource and a more realistic (and locally palatable) mine plan, Šturec is staking out a position as one of the largest and most prospective gold mine projects in Central Europe.

In light of all this, we have afforded MetalsTech a **LONG** rating, added it to the Model Resources Portfolio and posit a twelve-month target price of AUD$0.68.


AU:MTC Daily
6/21/21
0.35
0.30
0.25
0.20
0.15
0.10
Volume
©BigCharts.com
40
30
20
10
0
Millions
Jul
Aug
Sep
Oct
Nov
Dec
21
Feb
Mar
Apr
May
Jun

Important disclosures

I, Christopher Ecclestone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers.

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