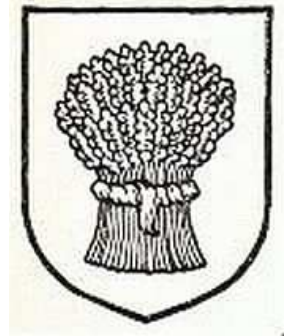


Friday, February 4, 2022



HALLGARTEN & COMPANY

Portfolio Strategy

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Model Resources Portfolio: Battery Metals Dodge a Bullet

Performance Review – January 2022

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Model Resources Portfolio

Battery Metals Dodge a Bullet

- + **Gold managed to hold its head above the \$1,800 mark but silver was not as resilient as many might have hoped**
- + **Lithium stormed upwards saving the battery metals space from the type of corrections being meted out to many other metals**
- + **Zinc remained well-supported**
- + **Tungsten continued its upwards creep**
- + **Oil sustained its rally**
- ✗ **Inflation is romping and Central Banks are still pulling their punches due to property sector fetishism – we have nothing to fear but lower house prices!**
- ✗ **Bitcoin’s “correction” has not brought a proportionate improvement in gold as many hoped**
- ✗ **Economic fears are holding back any rebound in the major base metals**
- ✗ **China appears to definitely be cooling**

Aclara – Biolantánidos Repackaged

Hochschild could do with a break lately. After the Peruvian government’s massive own goal which knocked the stuffing out of the stock price the most upbeat thing about the stock was the planned listing on the TSX of the Biolantánidos asset in Chile. We have written about this ionic-adsorption clay Rare Earth project various times in the last year.

The corporate entity to hold the asset was named Aclara, which signals more in Spanish than it does in English. In any case the company entered into an underwriting agreement for 35 million shares in Aclara at a price of CAD\$1.70 each, for gross proceeds of CAD\$59.5mn.

Under subscription agreements entered into between Aclara and Hochschild PLC and Pelham Investment Corporation (a company controlled by Eduardo Hochschild), Hochschild and Pelham agreed to purchase, on a prospectus-exempt basis in Canada, an aggregate of 37,661,796 shares at CAD\$1.70 for additional aggregate gross proceeds to Aclara of CAD\$64,025,053.

Various directors, officers and employees also agreed to purchase Aclara Shares, on a prospectus-exempt basis in Canada.

The pro-forma market capitalisation of Aclara was to be around CAD\$276mn based on the offering price, with a mighty wage of cash on board for development purposes.

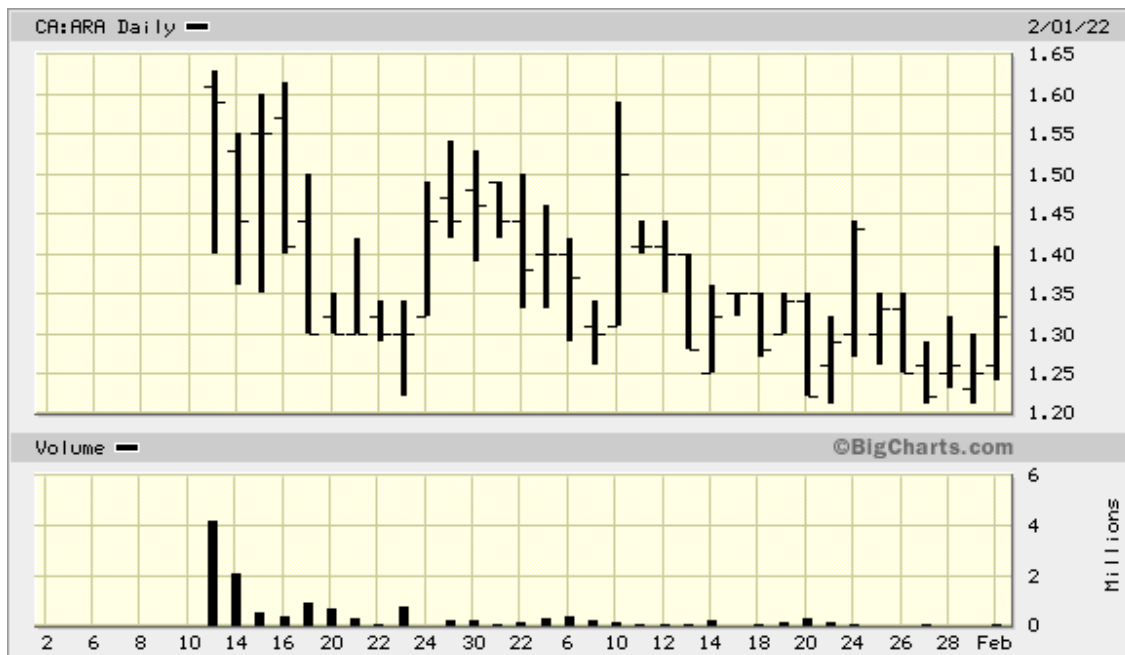
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Of more relevance to us (with Hochschild in the Model Resources Portfolio) is that Hochschild PLC resolved to distribute 70,606,502 shares of Aclara, representing 80% of the Aclara held by the company to the holders of ordinary shareholders of Hochschild PLC by way of a dividend in specie. The ration for the Demerger Dividend was 0.1374 Aclara Shares for each ordinary share held as at the record date of the 8th December 2021. Immediately following the distribution, Hochschild PLC retained a 20% holding in Aclara.

Curiously, after having distributed a large part of its holding, Hochschild (either directly or indirectly through HM Holdings) agreed to purchase 14,870,397 Aclara Shares at the Offering Price for CAD\$ 25,279,675. In addition, Hochschild had the right, in the event of the exercise of any over-allotment option by the underwriters, to exercise an equivalent over-allotment option to subscribe for additional shares so as to ensure its pro rata holding in Aclara was not diluted. In that event, exercising its right in full, it would acquire an additional 1,312,500 shares for CAD\$ 2,231,250.

As a result, immediately following completion of the Aclara IPO (assuming the over-allotment option is exercised in full), Hochschild would end up owning 33,838,601 shares in the new spin-out representing 20% of the Aclara Shares.

Immediately following the distribution, Eduardo Hochschild (through Pelham) owned 27,054,102 shares in Aclara, representing 30.7% of the Aclara shares.



Coming as it did at the high tide of the Rare Earth market, the Aclara stock price has found it very difficult to match its ritzy initial valuation. To this was added the extra burden of the flowback of dividend stock from original Hochschild holders who were either only interested in precious metals or

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did not want to hold stock that was only listed on a Canadian exchange.

As the chart on the preceding page shows, the stock traded down nearly as low as \$1.20 which represented a mighty discount to the original launch price. However these lows probably represent a more realistic valuation than the \$1.70 launch price offered.

We have added a position to the **LONG** category of the Model Resources Portfolio to show the dividend but have no target price in mind at the current time.

Lithium Power International (ASX:LPI)

Our coverage of this story was quite intense from late 2017 into 2018 in the wake of our visit to site at the Salar de Maricunga in the heights of the Chilean side of the Andes. The plans were quite breathtaking and it was not just the 4,000 metre elevations.

Some management changes were followed by various own-goals on the part of the Chilean government where an undertow of *dirigisme* towards Lithium (and now copper) is showing its ugly face. First it looked like it was protecting the bailiwick of SQM, but then it went on the attack against SQM. Now there is a new Leftist government in power that threatens to make things even less amenable for miners. Brace yourself for a big fall in Fraser Institute ratings for this one-time darling.

However, things are moving ahead at Maricunga despite Chile falling woefully behind Argentina in the Lithium Race. In late January LPI announced that it, through its JV entity, Minera Salar Blanco S.A., had updated the Definitive Feasibility Study for the Maricunga Stage One lithium brine project. In management's view the study confirmed that Maricunga Stage One could be "one of the world's lowest-cost producers of lithium carbonate". This is of course a claim that is very frequently bandied about these days. The estimated OPEX is US\$3,718 per tonne of LCE produced (not including by-product credits from potassium chloride - KCl) with 15,200 tonnes of LCE production per annum over 20 years.

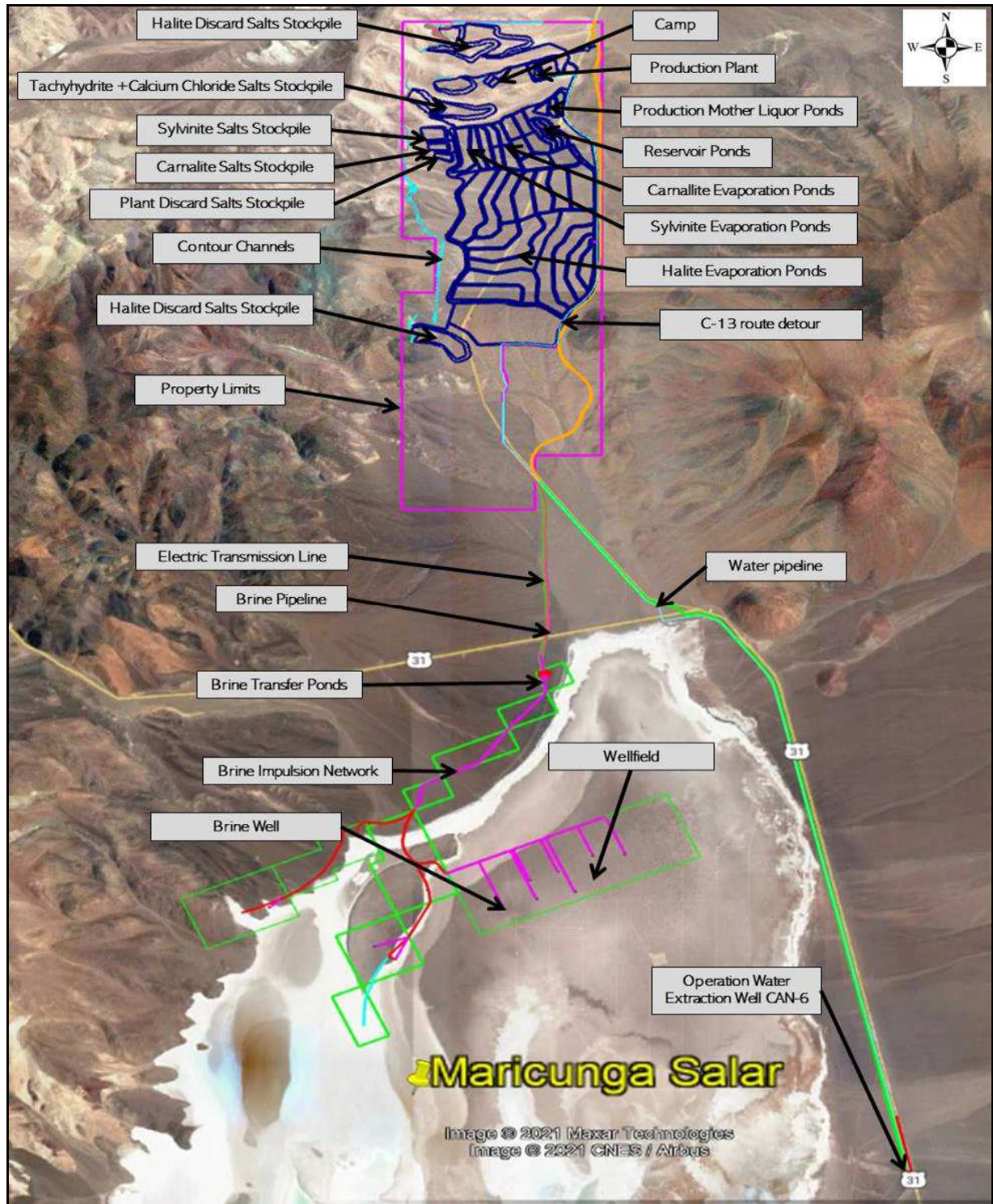
The latest study has the Maricunga Stage One delivering a US\$1.425bn NPV (after tax) at an 8% discount rate. There is an IRR of 39.6% and a two-year payback period.

The annual EBITDA is posited at a very attractive US\$324mn.

The direct development cost is US\$419mn which seems reasonable while the Indirect cost is US\$145mn with contingencies of US\$62mn giving a total project CAPEX of US\$626mn.

We have maintained our **LONG** rating on the company in the Model Resources Portfolio and hiked our 12-month target price to 80 cents.

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Portfolio Changes

There were a few changes in recent times. We added Aclara (ARA.to) for the reasons given above and we also added the Graphite developer in Uganda, Blencowe Resources (BRES.L) after our recent initiation of coverage.

We would note that the board of Elemental Royalties unanimously rejected the overtures from Gold Royalty Corp describing the offer as “completely inadequate”. The rationale seems sound as management pointed out that Elemental’s shareholders would only own approximately 12% of the combined company, despite Elemental contributing 97% of the revenue on a trailing 12-month basis, and 62% of the revenue based on Gold Royalty’s calculation of the “pro forma” financial information of the combined company. We are sitting on our hands for now.

More Underpinnings to Desert Gold (TSX.V: DAU, FSE: QXR2, OTCQB: DAUGF)

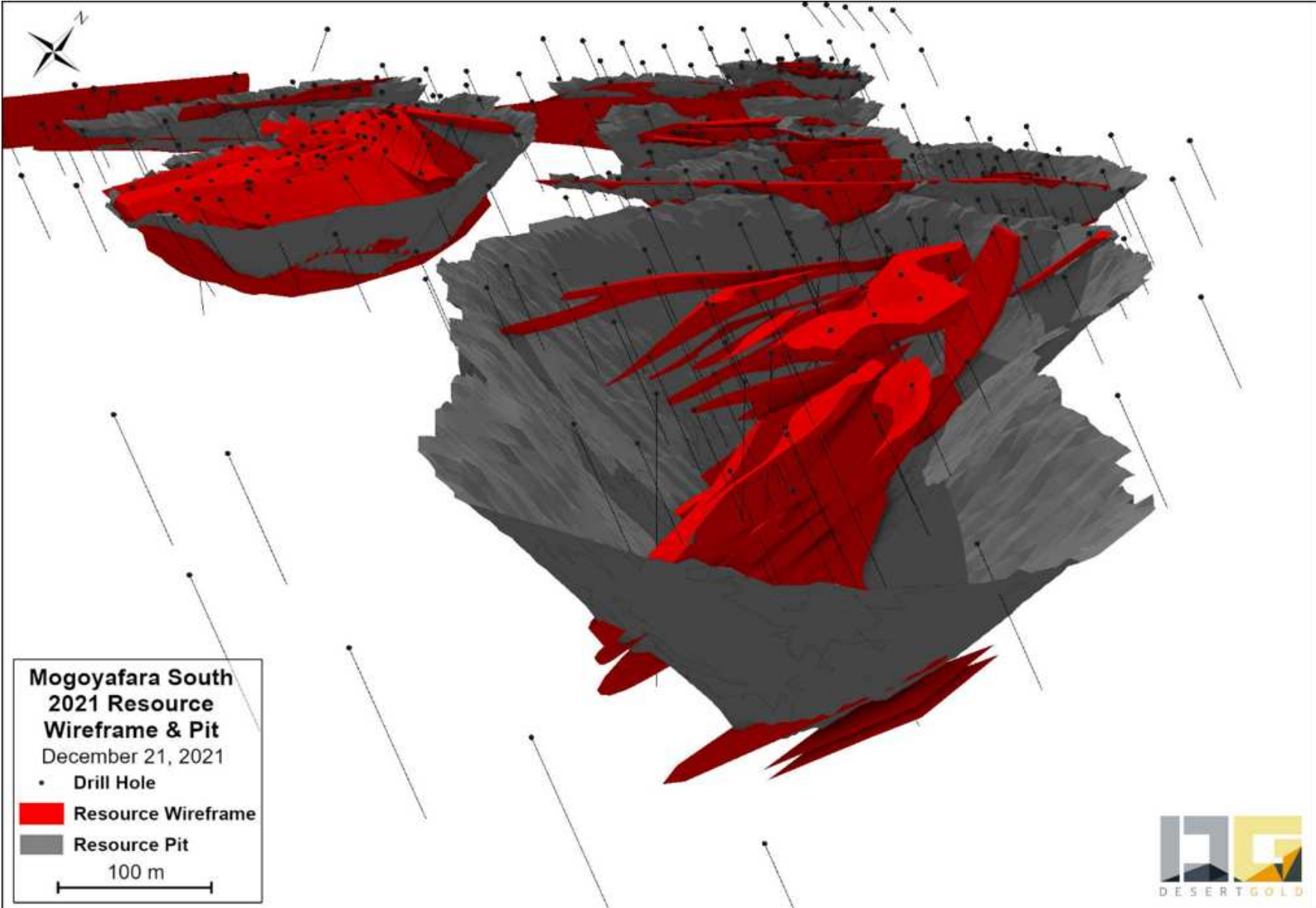
In our previous Monthly we had added Desert Gold to the Model Resources Portfolio after having encountered them for the first time in November at a mining conference in London. In mid-January the company announced an initial, pit-constrained Measured and Indicated Mineral Resources of 8.47 million tonnes grading 1.14 g/t Au totalling 310,300 ounces of gold and Inferred Mineral Resources of 20.7 million tonnes grading 1.16 g/t Au totalling 769,200 ounces of gold.

Desert Gold Resource - January 2022			
Category	Tonnes	Au g/t	Ozs
Measured	2,380,000	1.28	97,800
Indicated	6,090,000	1.08	212,600
Measured and Indicated	8,470,000	1.14	310,300
Inferred	20,700,000	1.16	769,200

A marginal cut-off grade of 0.40 g/t Au for all material was utilised.

Mineral Resources were estimated at a gold price of US\$1,800/oz, mining cost including G&A at \$11/t, mining costs ranging from \$2.25 to \$2,75/tonne, process recoveries of 92% and pit-slope angles from 45 to 50 degrees.

Desert Gold’s initial Mineral Resource comprised pit-constrained gold mineralization from five deposit areas all lying within a 12km radius of each other. The Mogoyafara South pitshell is shown on the following page.



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The Mineral Resources are derived from five deposit areas, all in the southern half of the property, including, in order of size, Mogoyafara South, Barani East, Goubassi West, Goubassi East and Linneguekoto West.

These combined resources comprise 2.38 million tonnes at 1.28 g/t gold totalling 97,800 ounces of Measured Mineral Resources at Goubassi West and Barani, 6.09 million tonnes at 1.08 g/t gold totalling 212,600 ounces of Indicated Mineral Resources at Goubassi East, Goubassi West and Barani and 20.7 million tonnes at 1.16 g/t gold totalling 769,200 ounces Inferred Mineral Resources.

The exploration team has completed its recently announced drill program over the new discovery at Goubassi North West. Seventy-two air core holes totalling 2,890 metres were completed along the 1.5km initial projected strike extent. The company expects assay results to be released in the coming weeks.

We would expect this latest resource to grow with in-fill drilling and further extension of the target areas and potential pitshells arising therefrom. We reiterate Desert Gold as a **LONG** in the Model Resources Portfolio with a twelve-month target price of \$0.35.

Parting Shot

The equities markets staged a pullback in late January and into early February but some would have us believe that happy days are here again. Battery metals managed to escape the worst of the carnage as the Lithium price kept storming higher. If the correction was triggered by higher interest rates and the concomitant fear that consumers would slow down then how is it that lower consumer activity will give EV purchases a free-pass, particularly when EVs are the ultimate in big-ticket items for middle-class buyers?

When it comes to the EV revolution the “spirit is willing but the logic is weak”... Already it is whispered *sotto voce* that governments shall have to backtrack on 2030 “drop-dead” dates for ICE’s as some of the better-heeled voters may have ditched their ICE’s but the *lumpenproletariat* will still be sitting behind the wheels of the old-style vehicles because they have no alternative. Politicians of a more sensitive nature when it comes to the will of the masses are already feeling their antennae twitching when the subject of the costs of “greening” on a hard-pressed populace comes up.

The pushback has not even really begun. Thus the prospects of battery metals should be viewed through the same prism as any other consumer good. The general public does not “need” EVs though they may “want” them. The government that forces the want to become a need and expects the public to foot the bill should brace themselves for the turbulence of the one or two electoral cycles before these 2030 stipulations must be met. If the public are told that their ICEs are to remain locked in the garage or find that service stations disappear (isn’t that a natural corollary?) then politicians can expect “heads on pikes”. Then there is the further wrinkle along the way that government’s will need to start surcharging for electricity used in EVs to pay for road maintenance, which EV (and to an extent HEV) owners are

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currently dodging.

What all seems so simple is not and we are looking forward to the politicians touting this revolution being strapped onto the rack and put through the paces for their virtues like any good saint would endure, gladly, for their cause.

MODEL RESOURCES PORTFOLIO @ END JANUARY

	Security	Ticker	Currency	Price	Change		12-mth Target
					last 12 mths	last mth	
LONG EQUITIES							
Diversified Large/Mid-Cap	Teck Resources	Teck.B	CAD	41.21	76%	13%	\$30.00
	Hochschild	HOC.L	GBP	1.064	-54%	-18%	£3.40
	Sherritt International	S.to	CAD	0.51	-12%	24%	£0.95
Uranium	Sprott Physical Uranium	U.UN.to	CAD	14.21	223%	2%	\$15.00
	GoviEx	GXU.v	CAD	0.33	32%	-8%	\$0.45
Zinc/Lead Plays	WisdomTree Zinc ETF	ZINC.L	USD	11.08	37%	2%	\$9.00
	Altaley Mining	ATLY.v	CAD	0.33	27%	-33%	\$0.90
Silver Explorer	Southern Silver Exploration	SSV.v	CAD	5.00	421%	79%	\$1.80
Silver ETF	iShares Silver ETF	SLV	USD	20.94	-16%	-3%	\$26.00
Gold Producer	Soma Gold	SOMA.v	CAD	0.36	-5%	0%	\$1.20
Gold Explorer	Desert Gold	DAU.v	CAD	0.14	-18%	0%	\$0.35
Metallurgical Coal	Colonial Coal	CAD.v	CAD	2.15	191%	-18%	\$2.45
Project Generator	Altus Strategies	ALS.L	GBP	0.57	-29%	-3%	£1.00
Copper Explorers	Panoro Minerals	PML.v	CAD	0.18	13%	13%	\$0.30
	Phoenix Copper	PXC.L	GBP	0.525	16%	-1%	£0.90
	C3 Metals	CCCM.v	CAD	0.12	-14%	-25%	\$0.44
Tungsten Producer	Almonty Industries	AII.v	CAD	0.89	19%	0%	\$1.25
Graphite Developer	Blencowe Resources	BRES.L	GBP	0.0449	-38%	-2%	£0.22
Vanadium Developer	Vanadium Resources	VRB.ax	AUD	0.08	100%	0%	\$0.08

MODEL RESOURCES PORTFOLIO @ END JANUARY							
Security	Ticker	Currency	Price	Change		12-mth Target	
				last 12 mths	last mth		
LONG EQUITIES							
Lithium	Neometals	NMT.ax	AUD	1.45	339%	1%	\$1.50
	Lithium Power Intl	LPI.ax	AUD	0.72	148%	57%	\$0.80
Scandium Developer	Scandium International	SCY.to	CAD	0.14	-42%	0%	\$0.25
Gold Explorer	Cabral Gold	CBR.v	CAD	0.37	-43%	-10%	\$0.60
	BTU Metals	BTU.v	CAD	0.1	-29%	11%	\$0.12
	Gunpoint Exploration	GUN.v	CAD	0.58	2%	2%	\$0.75
	Bold Ventures	BOL.v	CAD	0.09	-10%	-18%	\$0.18
	MetalsTech	MTC.ax	AUD	0.26	37%	-10%	\$0.68
Fertilizers	Verde Agritech	NPK.to	CAD	5.00	421%	79%	\$2.00
Cesium et al.	Essential Metals	EXX.ax	AUD	0.51	240%	155%	\$0.30
Rare Earths	Rainbow Rare Earths	RBW.L	GBP	0.165	32%	-5%	£0.30
	Neo Performance Materials	NEO.to	CAD	18.85	24%	-7%	\$24.00
	Aclara	ARA.to	CAD	1.41	n/a	-7%	n/a
Tin Miners	Alphamin	AFM.v	CAD	1.07	133%	14%	\$0.80
	Metals X	MLX.ax	AUD	0.55	224%	-4%	\$0.45
Oil & Gas	Shell	SHEL.L	EURO	19.39	45%	19%	£14.90
Royalties	Elemental Royalties	ELE.v	CAD	1.65	9%	-1%	\$2.30
SHORT EQUITIES							
Shorts	NioCorp	NIO.to	CAD	1.02	46%	-21%	\$0.40
	Aya Gold & Silver	AYA.to	CAD	8.80	113%	-8%	\$8.00
	Galane Gold	GG.v	CAD	0.12	-57%	4%	\$0.06
	Texas Mineral Resources	TMRC	USD	2.20	45%	12%	\$0.30

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