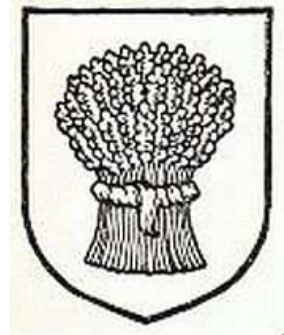


Tuesday, August 6, 2019



HALLGARTEN & COMPANY

Portfolio Strategy

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Model Mining Portfolio: M.A.D.A – US's Own Goal on Cesium

Performance Review – July 2019

Model Mining Portfolio

M.A.D.A. – US's Own Goal on Cesium

- + Gold spent most of the month doodling about and it was silver's turn to move higher
- + Silver "improved" to only 88:1 against the dollar
- + Rare Earths export restrictions become more likely as China flails about looking for a solution to its loss of face in the "trade war"
- + M&A in mid-tier miners continues apace with Resolute as a predator in West Africa
- ✗ The "trade war" between China and the US bubbles along with little sign of resolution
- ✗ Tensions mount in the Gulf but this has not given gold any more notable impetus
- ✗ Base metals wallowing without direction

Making America Dependent Again

We have oft noted the fact that the one metal that the US totally dominates in both the mining and processing is beryllium. However there is (or rather was) another mineral where the US totally dominated the processing. And that metal was Cesium. The biggest application for the element is the production of Cesium Formate a very high value input to oil & gas drilling for lubricating brines.

Until last December the world's biggest player with a sweeping dominance was Cabot Corp's Specialty Fluids division. Then in a stroke of a pen and the passing of a cheque this asset flipped from the US to China without so much as a batted eyelid or inflammatory tweet from Washington.

To put it bluntly we were stunned. This flew entirely in the face of M.A.G.A. mouthings, and put US users of Cesium Formate in an invidious position of being entirely dependent upon the good graces of Sinomine, the new owners, going forward. Ourselves and a few other souls noted this development with dismay. The oil & gas industry were silent though. One might imagine they don't care or one might more correctly surmise that they decided they shouldn't rock the boat or they might find themselves off Sinomine's client list.

We would sustain that Cabot Corp has the right to sell its divisions when it so chooses but that it does NOT have the right to sell to whoever when it has long been allowed to enjoy a position of market dominance. Even in Australia, where supine acceptance of Chinese "creep" is long-established, the Foreign Investment Review Board (FIRB) would have had to put such a deal under the microscope, but in the US clearly it has just been waved through.

Tuesday, August 6, 2019

Australia has some more relevance here than just as a counterpoint. Cabot used as a rationale for its sale that it's long-established Tanco Mine in Manitoba, from which it produced the pollucite that Cesium is made from, was at its end of mine life. This was true but seemingly Cabot had been resting on its laurels here (something we would also accuse Materion of in the Beryllium space). How much effort had Cabot put into finding and developing a new source? Instead it had done an offtake deal with an Australian company, Pioneer Resources (PIO.ax) which had just developed a pollucite mine in Western Australia. Funny that...

So Cabot's rationale was that the US dominance of Cesium should be abandoned because it didn't control a mine anymore. The solution might have been to buy Pioneer... but hey-ho.

Earlier this year we met with Lepidico (LPD.ax) at PDAC and were impressed with their grasp of the Cesium potential and their strategy to acquire the producing Alvarrões property in northeast Portugal from Grupo Mota. However this has still not closed (possibly because Lepidico got sidetracked into buying Desert Lion in Namibia. We had added Lepidico to our Model Mining Portfolio and yet now find Lepidico to be disappointing. The contrast with Pioneer, which we added to the Portfolio just as we dropped Lepidico this month, is poignant.

Lepidico actually believes it is a Lithium play when it had potential as a Cesium play. Meanwhile Pioneer are still mouthing Lithium (for the cheap seats) but actually doing Cs for real.

The Sinclair Pegmatite at Pioneer's Dome Project is classed as a complex Lithium-Cesium-Tantalum (LCT) pegmatite due to its mineral assemblage and degree of mineral fractionation. This has resulted in the formation of a suite of monomineralic phases that include Cesium-bearing pollucite, Lithium-bearing petalite and lepidolite, Potassium feldspar and silica.



The Stage 1 open pit mining operation was completed on budget in January. Approximately 19,000t of crushed pollucite ore with an average grade of 9.1% Cs₂O (Cesium Oxide) was stockpiled with a small quantity of residual low-grade ore also stockpiled.

With the offtake deal with Cabot squared away, Pioneer moved to production only to find the client sold off to the Chinese. However, this did not reduce Sinomine's need for the output from Pioneer's Sinclair Mine.

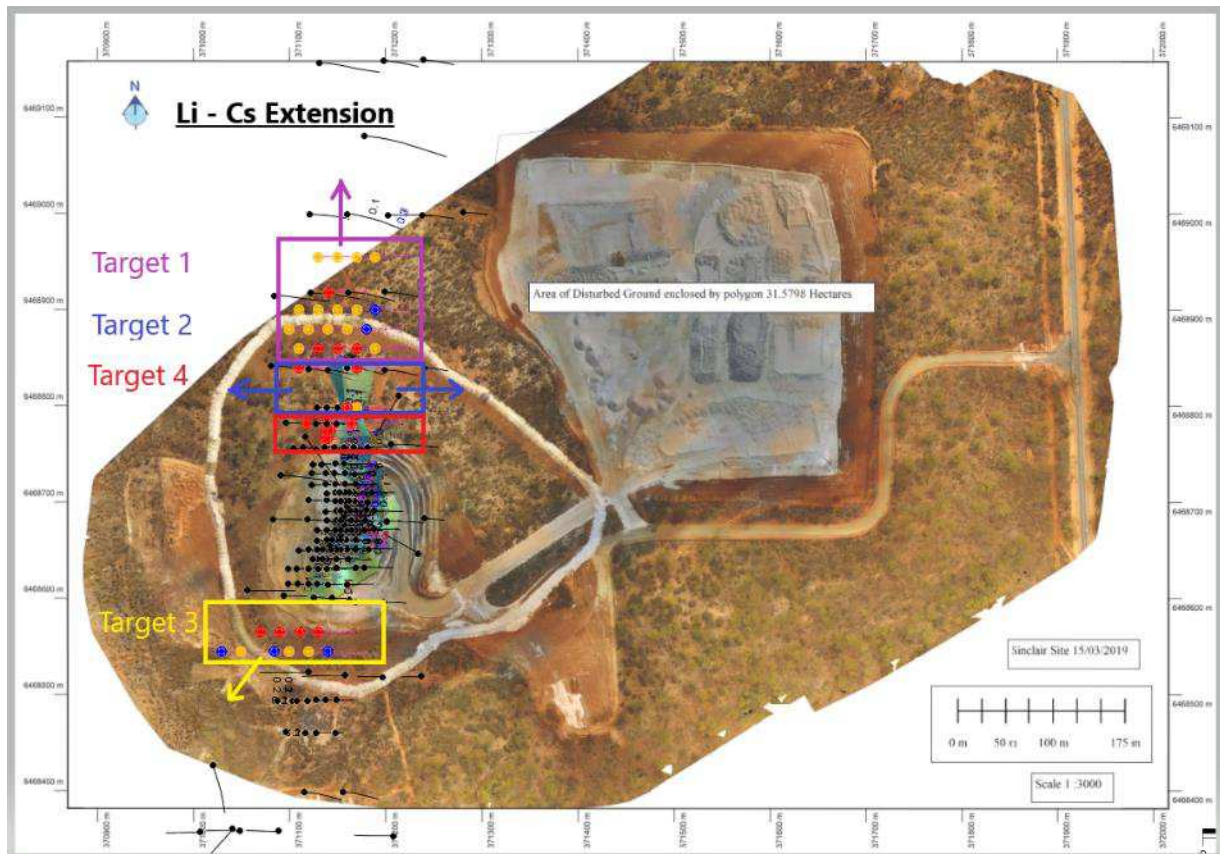
In recent weeks the company announced its results for 1H19. To 30 June 2019, pollucite sales from Sinclair Mine totalled AUD\$10.5mn (US\$7.5mn), with AUD\$3.8mn received in cash and A\$6.7mn

Tuesday, August 6, 2019

(US\$4.8mn) applied to fully repay project loan (from Cabot's former division).

Pioneer also let on that, following discussions in July with the offtaker, the company expects to sell a further US\$6.7mn (around AUD\$9.5mn at current exchange rate) of pollucite to be 100% settled in cash by the end December 2019.

Below can be seen the mine site and recent drill work.



On the exploration front, the company discovered a new spodumene-bearing pegmatite system at Dome North prospect at the project. Rock chip assay results were grading up to 3.7% Li₂O. High-grade spodumene mineralisation was identified within two pegmatite outcrops with a combined current strike length exceeding of 500m. A maiden drilling program is set to commence in August.

The next logical step will be the Chinese moving on Pioneer. This will provide an interesting moment when we find out whether the FIRB is more on the ball than the US government in protecting (the US's) strategic interests by blocking a Chinese acquisition of this mine.

We added a **Long** position in Pioneer to the Model Mining Portfolio during July with a 12-month target price of 6 cents.

Portfolio Changes

There were four portfolio changes in July:

- Added a Long position in Pioneer Resources. Bought 5,000,000 shares in PIO.ax at AUD 1.7 cts per share on July 26th
- Sold our Long position in Lepidico. Sold 3,000,000 shares in LPD.ax at AUD 0.25 cts per share on July 26th
- Added a Long position in iShares Silver ETF. Acquired 17,000 shares in SLV at USD \$14.17 per share on July 12th
- Reduced our Long position in Almonty Industries. Sold 200,000 shares in All.v at CAD 81 cts per share on July 12th

The Portfolio Move

The cash balance was whittled down from \$203,000 to \$80,000 at month end due to net purchases in the portfolio.

The Model Mining Portfolio stands at \$4.17mn virtually unchanged over the course of the last month.

Tando Resources, the ASX-listed Vanadium developer in Australia, changed its name to Vanadium Resources with a new ticker VR8.ax.

Strapping on our Tin-Foil Hats - Adding SLV

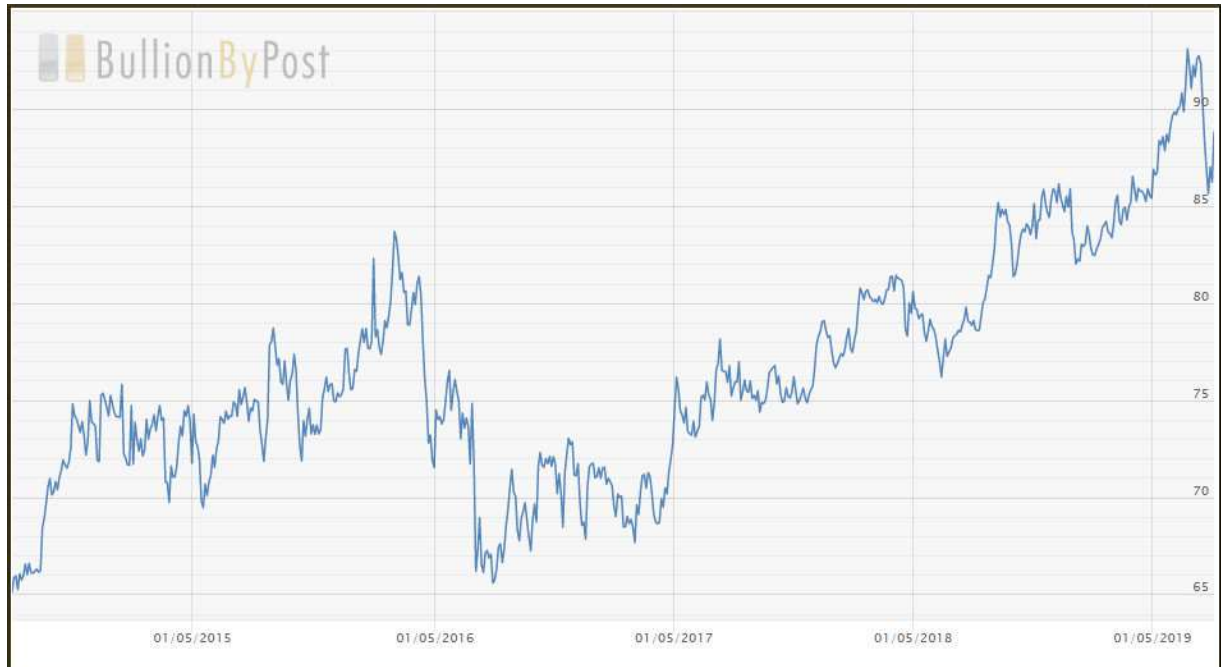
One of the ironies of the current moment is that the “silver nuts” are looking more modest in their expectations than the gold bugs. The brief flurry in Gold prompted the “bugs” to reappear from the woodwork with their “next stop” being \$2,000.... Meanwhile the usually more rabid silver nuts (hence their tin-foil hats) would be content enough to see \$20 per oz again. If both got their way then the silver/gold ratio would stand at a ridiculous 100:1. We suspect though that the silver bugs will be rewarded more swiftly than gold’s *aficionados*.

The travails of silver (and its acolytes) have been nothing short of torture. That gold was lackluster for so long was bad enough but that tarnished (pardon the pun) silver even more and the ratio of silver to gold slipslided away to ridiculous levels. The ratio was rapidly heading towards the 100:1 when the patently obvious value of silver returned to the fore and the metal turned around in a rather rapid rally. Some might claim this is catch-up with gold which made its move a month or so ago with little positive backwash for silver. We would prefer to say that the ratio nearing 100 prompted those on the sidelines to leap back into the water.

As the chart that follows shows the ratio made a rather rapid improvement over a very short period of

Tuesday, August 6, 2019

time... and then gold regained its mojo.. The question is whether the two metals will start moving in tandem from now on.



We are not silver bugs, and never have been, but we resolved to add a position in the physical silver ETF to the Model Mining Portfolio in mid-July. This joined a position in silver developer, Southern Silver and one in Mexican silver producer, Excellon.



At this time it seems churlish to over-analyze silver's fundamentals on the industrial side. The main

Tuesday, August 6, 2019

arguments should be its lagging behind gold and the fact that most silver producers have production costs that make silver marginal below \$12 per oz. This means skimpy profits, poor incentives to invest, explore or expand and thus a rather arid pipeline of new projects.

A real sign of the turn will be the initiation of some takeover action in the silver space. First producers and then the developers and explorers.

Parting Shot

The grim reaper has been stalking the streets of London in recent days and has taken down yet another broking firm that represents a bunch of Aim-listed clients. Jack the Reaper has claimed more victims now in the Square Mile than his predecessor did in the back alleyways of Whitechapel. It seems to be that being a broker to mining companies is a short life and not a merry one these days.

Having said that though, most of those that have fizzled and died have deserved their fate. With management and staff being largely the residue left at the bottom of the barrel after 33 years of filtration since the City's Big Bang in October 1986, its merely logical that the uncouth, unimaginative and ignorant have floated to the top of a very shallow puddle.

The latest victim, SVS Securities, is shrouded in some mystery. Despite being quite large there were a few hours on the day of its demise when the public and observers (not to mention clients) did not know what was going on. The FCA weren't saying anything.... but then again they were probably occupied trying to wash the knife and their hands... Out, damned spot!

It makes one almost nostalgic for the days of the Stock Exchange floor when firms were "hammered" by one of the waiters (the Exchange's floor attendants) banging a hammer on a tray, as in the days of the coffee house origins of the institution, to signal the demise of a broking house that couldn't meet its obligations.

Now in the "much improved" system no-one knows what the hell is going on, least of all the regulators.

That brings us back to the subject of our Dear Friends, the FCA. Rumours trundled around of difficult trading conditions but apparently the more juicy offering from the few remaining provenders of City scuttlebutt was that the FCA had "paid a visit" (i.e. raided) the premises a few weeks back. Like the undearly departed Beaufort Securities a few years back, the poor punters were not protected in the period in between regulators getting the wind up and the doors slamming shut. Instead the regulators prefer to spend their time protecting institutional investors from paying however for the research they want in the way they want it with their MIFID2 innovations.

A head of steam against the FCA's negligence is building up, but whether it comes to anything is another matter... of maybe we are all just waiting for the day when Brexit happens and the regulator/collaborators will have their heads shaved and be harried through the streets like Paris 1945.

Mining Model Portfolio as at: 2nd August 2019

Security		Initiated	Currency	Price Avg.	Price Current	Portfolio Weighting	Change in Value	12-mth Target
Long Equities								
Various Large/Mid-Cap	Teck Resources (TECK.B)	5/29/2009	CAD	22.46	24.5	6.2%	9.1%	\$38.00
	Sherritt International (S.to)	7/11/2013	CAD	1.28	0.23	1.5%	-82.0%	\$1.00
	Metals X (MLX.ax)	5/29/2014	AUD	0.67	0.21	1.6%	-68.7%	\$0.80
Uranium	Uranium Participation Corp (U.to)	10/20/2010	CAD	5.36	4.23	6.1%	-21.1%	\$6.00
	GoviEx (GXU.v)	6/29/2015	CAD	0.08	0.17	3.9%	106.9%	\$0.50
Zinc/Lead Plays	Zinc ETF (Zinc.L)	6/2/2010	USD	7.63	7.51	6.5%	-1.5%	\$11.00
	NorZinc (NZC.to)	12/9/2011	CAD	0.82	0.095	0.2%	-88.4%	\$0.22
	Myanmar Metals (MYL.ax)	11/29/2018	AUD	0.06	0.06	2.1%	0.0%	\$0.13
	Ascendant Resources (ASND.v)	10/31/2016	CAD	0.49	1.00	5.2%	104.5%	\$1.70
	Telson Mining (TSN.V)	3/19/2018	CAD	0.79	0.28	1.7%	-64.6%	\$1.10
Silver	Excellon Resources (EXN.to)	11/8/2018	CAD	0.74	1.16	4.5%	56.8%	\$1.35
	Southern Silver Exploration (SSV.v)	8/25/2016	CAD	0.49	0.19	0.9%	-60.8%	\$0.35
Silver ETF	IShares Silver ETF (SLV)	7/12/2019	USD	14.17	15.19	6.6%	7.2%	\$18.00
Gold Producers	Para Resources (PBR.v)	2/17/2017	CAD	0.23	0.16	1.5%	-30.4%	\$0.58
	Westgold (WGX.ax)	12/6/2016	AUD	2.01	1.89	3.3%	-6.0%	\$1.50
Coking Coal	Colonial Coal (CAD.v)	6/4/2018	CAD	0.35	0.39	3.0%	11.4%	\$1.10
Project Generator	Altus Strategies (ALTS.v)	6/28/2019	CAD	0.09	0.09	2.3%	0.0%	\$0.24
Metals Processor	IBC Advanced Alloys (IB.v)	4/29/2016	CAD	0.3	0.15	0.3%	-50.0%	\$0.35
Tungsten Producer	Almonty Industries (AII.v)	7/31/2015	CAD	0.19	0.82	4.8%	334.7%	\$1.00
Copper Explorers	Phoenix Copper (PXC.L)	9/28/2018	GBP	0.35	0.13	1.0%	-62.9%	\$0.74
	Panoro Minerals (PML.v)	1/22/2018	CAD	0.37	0.14	0.8%	-61.6%	\$0.65
	Argonaut Resources (ARE.ax)	11/22/2018	AUD	0.02	0.01	0.9%	-44.4%	\$0.05
	Western Copper & Gold (WRN.to)	4/25/2017	CAD	1.57	1	1.9%	-36.3%	\$2.74
Vanadium Developer	Vanadium Resources (VR8.ax)	11/23/2018	AUD	0.11	0.08	1.8%	-27.3%	\$0.50
Lithium	Neometals (NMT.ax)	7/31/2014	AUD	0.3	0.19	3.1%	-37.3%	\$0.45
	Lithium Power Intl (LPI.ax)	10/25/2017	AUD	0.44	0.39	2.0%	-11.4%	\$1.38
Scandium Explorer	Scandium International (SCY.to)	8/23/2016	CAD	0.14	0.18	2.1%	28.6%	\$0.50
	Platina Resources (PGM.ax)	10/25/2018	AUD	0.07	0.04	1.4%	-38.5%	\$0.18
Gold Explorer	Banyan Gold (BYN.v)	11/14/2017	CAD	0.06	0.04	1.8%	-35.5%	\$0.15
	Cabral Gold (CBR.v)	3/27/2019	CAD	0.21	0.18	8.0%	-12.2%	\$0.45
	Gunpoint Exploration (GUN.v)	11/9/2018	CAD	0.5	0.5	1.9%	1.0%	\$0.75
Cesium et al.	Pioneer Resources (PIO.ax)	7/26/2019	AUD	0.017	0.02	1.7%	17.6%	\$0.06
Rare Earths	Northern Minerals (NTU.ax)	6/9/2011	AUD	0.14	0.06	1.7%	-57.5%	\$0.28
	Neo Performance Materials (NEO.to)	10/25/2018	CAD	17.32	11.96	3.5%	-30.9%	\$23.00
Mining Media/Events	Aspermont (ASP.ax)	3/1/2019	AUD	0.009	0.01	3.5%	11.1%	\$0.02
Unlisted	New Noble Group	15/11/2017	SGD	0.2	n/a	n/a	n/a	
Suspended/RTO	Cabo Drilling (CBE.v)	9/28/2016	CAD	0.025	0.015	n/a	-40.0%	
NET CASH						80,059		
Short Equities								
Shorts	NioCorp (NIO.to)	9/28/2018	CAD	0.61	0.54	72.50%	11.50%	\$0.40
	Galane Gold (GG.v)	4/28/2016	CAD	0.06	0.06	27.50%	0.00%	\$0.03

Current Cash Position	80,059
Current Liability on Shorts Not Covered	181,707
Net Cash	261,766
Bonds	0
Current Value of Long Equities	3,917,123
TOTAL VALUE OF PORTFOLIO	4,178,889

Short Equities	-5%
Long Equities	105%

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