

Wednesday, July 3, 2019



HALLGARTEN & COMPANY

Portfolio Strategy

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Model Mining Portfolio: Rare Earth Resurrection?

Performance Review – June 2019

Model Mining Portfolio

Rare Earth Resurrection?

- + Gold soared, and pulled silver along in its wake
- + Weedmania shows some sign of abating in Canada, and the infection has got little traction in London or Australian markets
- + Rare Earths raced higher during the month on fears of Chinese export restrictions, when the real fear should be the secular decline in Chinese mined product
- + Chances of a breakthrough in the trade war with China have improved
- ✗ Zinc continues to wallow
- ✗ The uranium space is left dangling by the lack of a firm response to the Commerce department enquiry
- ✗ Vanadium's fall accelerated during the month
- ✗ Antimony also tumbled with chatter about bans in the US

Hallelujah! Rare Earths are Risen...

The moment we have all been waiting for has arrived. Well, not all of us. In fact only 0.0001% of us, but still it's exciting in an otherwise bleak outlook during May in the mining equities market. Rare Earths have arisen from the grave.

Powered by the supposed "trade war" the rumour mill has cranked up with the latest manifestation being the possibility of retaliatory action by the Chinese against the US. However nothing happened and once again, the US and China are back at the negotiating table without the rare Earths card having been played. So it's back to sleep now for the REE wannabes.... or is it?

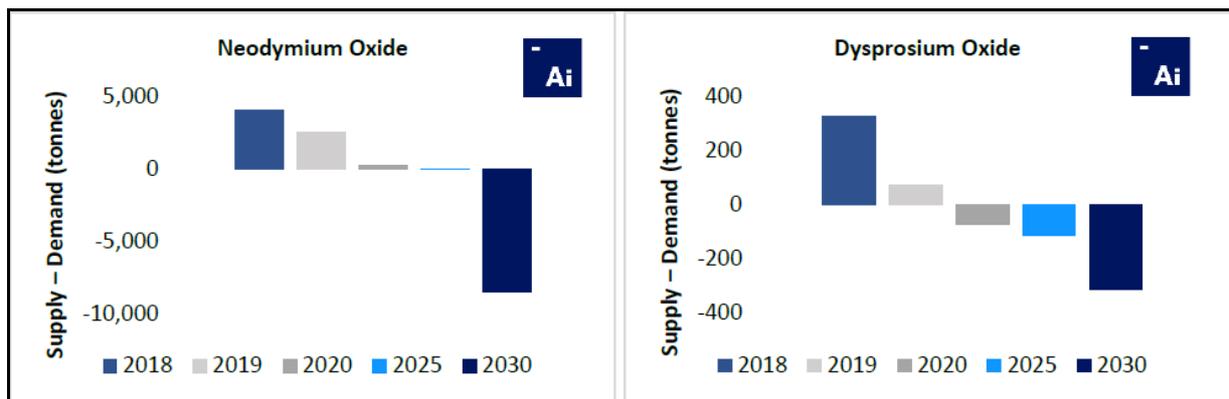
The Crisis is Dead, Long live the Crisis.

The boom of 2009-11 in Rare Earths was correct and yet it was mistaken. Yes, the West was dependent upon China for supply and yes that supply was finite. Its mistake was in coming to this realization some seven or eight years too early. True, the Chinese have a strategic near-stranglehold on REEs but that grip is now loosening as the squandering of a finite resource has left China in a position where by 2025 it will be less than 50% of the world's REE output.

We are now in the territory of post-peak Chinese production of Rare Earths. The country seemingly has an instinctual reaction to respond to the Trump trade tariffs with export restrictions on the one product that China has that the rest of the world does not. However, if that hand is played badly, the West will

realise that the Jeremiahs at the turn of the decade were correct and that China is a predatory and malevolent force in REEs that must be replaced at any cost. An REE crisis will not win China the trade war, it will lose it REE dominance as the West revives the REE hunt and goes out of its way to make sure that alternative supplies are found and brought to production.

The interesting charts below from Adamas Intelligence show that the supply-side will struggle to keep up with rising demand for Neodymium and Dysprosium.



Source Adamas Intelligence

China is not done in Rare Earths, but the best is behind it. In this review we shall look at the resurgence of interest and some of the companies that are serious and non-serious players in the space.

The mere fact that the Good, the Bad and the Ugly could resurge in recent weeks, with some of the biggest gains reserved for the most impossible projects, is somewhat dismaying. With any luck the fools diving back into the pond of uncertain depth will not come back to the surface. The REE market should remain niche and only for those prepared to do their homework and sort the wheat from the chaff (or the Xenotime from the Eudialyte, as the case might be).

The imperative for a non-Chinese Rare Earth production chain from soup-to-nuts is now stronger than ever. In 2009, China-dominance of REEs was regarded as a potential danger, and yet now we know that it truly is a massive threat to defense and other industrial needs. Counterbalancing that, the myth of China being the perpetually dominant player is now in retreat. Nothing lasts forever, particularly if you squander what you have.

The survivors from the first go-around in 2009-2011 have shown themselves to be a hardy and determined lot. However, some, despite their persistence are still unworthy and deserve a merciful bullet. Some new players will appear. If they can get the mineralogy that suits the market's need and create viable and sensible (read cheap) production plans in place then they will merit being added to the pool of investable REE players.

What we do not want is the reawakening of the carpet-bagger faction. The one advantage of the current

weed-mania in Vancouver is that many of the low-lives of the promotorial class are too stoned to notice what's going on in the Rare Earth space. Long may it stay that way.

We could never have named all the players the last go-around. Some said there were 200 wannabes, others said as many as 300. However many it was, there was a need for less than twenty. Now we are down to a bit over twenty, but when we apply our filters we see less than ten that deserve to make it to production. From the first wave, only three made it to production (then Molycorp failed) and there has been the subsequent addition of Rainbow. Three out of three hundred? That is more than Darwinian attrition.

The outlook is good though. We stand ready with our mallet to play Whackamole and beat the unworthy back into their holes. Our outlook is optimistic and we have increasingly, in the last two years, subscribed to the sentiment that Rare Earths will be back and that for hardy investors it will be better than ever.

Portfolio Changes

There were three portfolio changes in June:

- Closed a Long position in Coro Mining. Sold 1,000,000 shares in COP.to at CAD\$0.10 per share on June 28th
- Closed a Long position in Asiamet. Sold 1,500,000 shares in ARS.L at GBP 4.5 pence per share on June 28th
- Added a Long position in Altus Strategies. Acquired 1,000,000 shares in ALTS.v at CAD\$0.09 on June 28th

The Portfolio Move

The cash balance nearly doubled to \$203,000 at month end due to net sales from the portfolio.

The Model Mining Portfolio stands at \$4.2mn down 5% over the last two months.

Altus Strategies (AIM:ALS, TSX-v:ALTS) – making Project Generation Fashionable Again?

Project generators have traditionally had more traction in Canada than elsewhere and, even in their heartland, the enthusiasm of investors has waxed and waned over time depending upon the general situation in the mining space and the mood towards this type of vehicle. Their best moments come when investors are most concerned about the pipeline of future projects and thus upvalue those with an inventory that can be onsold or upsold.

The Altus group in the UK we have known for several years due to its founding role in the Oxford Mining Club. It was however largely a private entity out of site of the Great Unwashed. However in late 2017 it

made a quantum leap with the announcement of a plan of arrangement, with Legend Gold Corp which was listed on the Toronto Venture Exchange. This deal eventually closed in early 2018.

The attraction of Legend was its portfolio of six strategically-located gold projects in western and southern Mali. As a result of this Altus picked up Resolute Mining as a Joint Venture partner on the Pitiangoma Est project. The completion of the deal resulted in the issuance of 41,060,256 new Ordinary Shares in Altus with previous Legend shareholders representing approximately 27.6% of combined company on a non-diluted basis. As a result Altus became dual listed on both the AIM and the TSX-V.

The enlarged project generator company thus covered a portfolio of nineteen projects at different stages of advancement, diversified by six commodities, across five countries with (at that time) two active joint venture partnerships.

A week is a long time in politics, they say, and a year has been a very long time in mining for ALS from the time of completing the acquisition of Legend Gold and raising £2.3mn in a deal backed by Sprott.

The shares were then trading at 8p and the capitalisation was £14mn and yet while nothing adverse happened over the intervening period, there was nothing to justify the 50% fall in share price to 4p and capitalisation to £7.1mn. Now it's back at a mere £8.7mn.

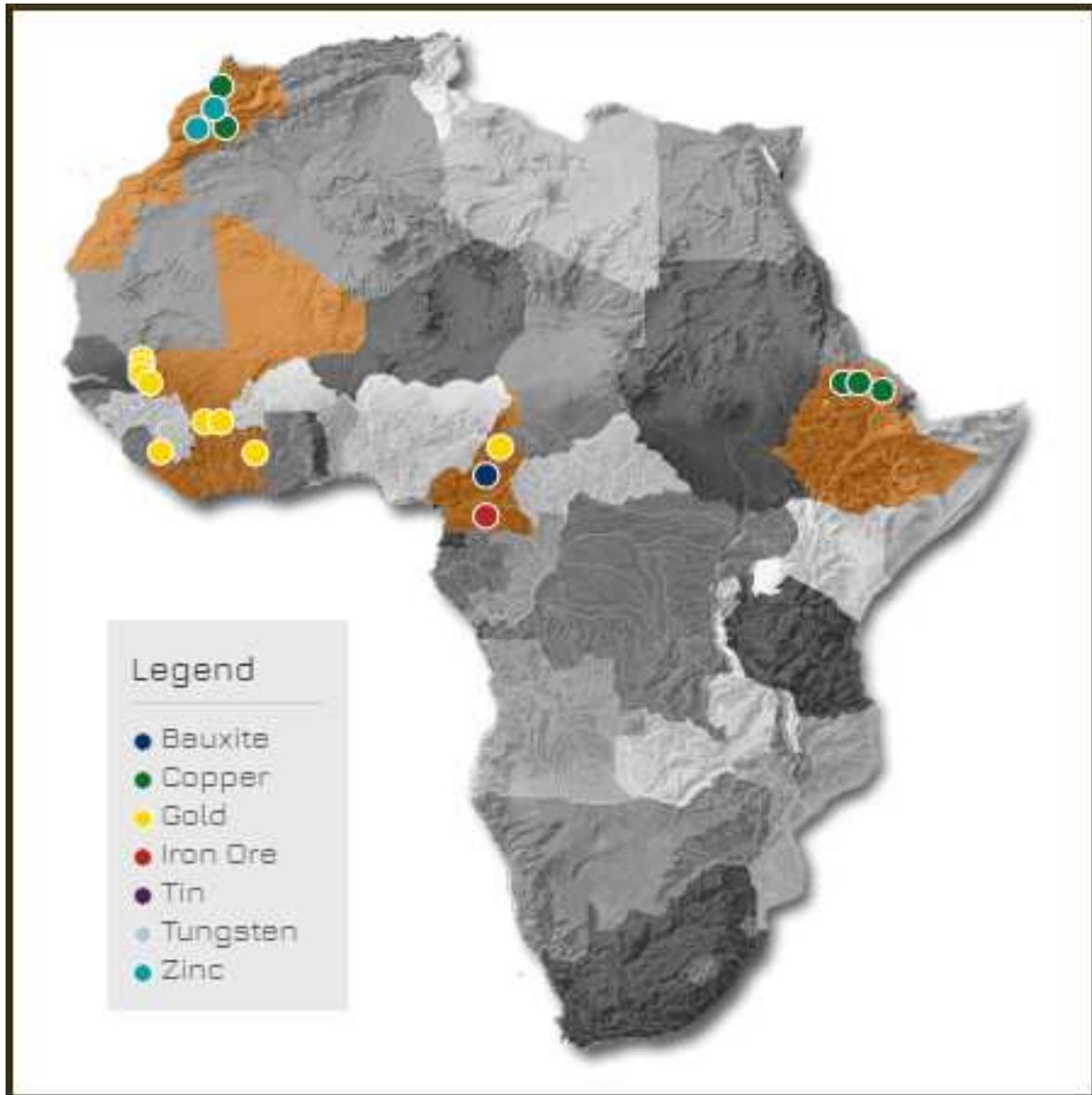
The company's portfolio consists of:

Morocco - Copper Project - the 60km² Agdz copper-silver exploration licence in central Morocco through its 100% owned subsidiary Aterian Resources Ltd. Five prospects have been defined to date, the best of which returned grades up to 8% Cu, 448 g/t Ag and 3.74 g/t Au. The project is located close to a number of operating mines, notably the recently commissioned Bouskour Cu-Ag mine located 14km NE of Agdz.

Mali - Gold Projects - six exploration licences totalling 396.6km² in western and southern Mali. The licences are at varying stages of exploration. The Korali Sud (83.1km²) licence and Tabakorole (100.0km²) licence both host mineral resources. The Pitiangoma Est licence (106km²) is situated 35km south of the 7.5 Moz Syama gold mine and is under JV with Resolute Mining Limited (ASX: RSG). The Diba project is located within the Korali Sud licence and is strategically located 13km south of the 13 Moz Sadiola gold mine. Drilling at Diba includes intersections of 5.36 g/t Au over 13m and 13.88 g/t Au over 8m. The Lakanfla licence (24.0km²) hosts a potential karst style deposit and is located 6km southeast of the FE3 and FE4 open pits of Sadiola and 35km southeast of the former 4.5 Moz Yatela gold mine. Drilling at Lakanfla includes intersections of 9.78 g/t Au over 12m and 5.2 g/t over 16m. Two further licences, namely Sebessoukoto Sud (28.5km²) and Djelimangara (55.0km²), host a number of artisanal gold workings and provide significant discovery potential.

Cameroon - Gold Project - the 189km² Laboum gold exploration licence in northern Cameroon through its 99% owned subsidiary Auramin Ltd. At Laboum an approximately 18km and 5km wide long gold-bearing shear zone has been discovered. In addition close to 1 km of quartz veins have been discovered. High resolution ground geophysics and a concurrent gold in soil survey are defining priority targets for a

systematic trenching program. The Laboum licence hosts a number of artisanal gold mining sites and grab samples have returned grades up to 24.50g/t Au from quartz veins and 6.86g/t Au from the sheared metasedimentary rocks respectively.



Ethiopia - Copper and Gold Projects - the 322km² Tigray-Afar and contiguous 134km² Negash copper-silver-gold exploration licences in northern Ethiopia through its 100% owned subsidiary Altau Resources Ltd and 97.3% owned subsidiary Aluvance Ltd respectively. Four distinct prospects have been identified to date, returning grades of up to 22% Cu and 102 g/t Ag from surface sampling. Channel results have include 28m at 0.75% Cu, 31m at 0.50% Cu, 4m at 3.22% Cu & 6m at 1.46% Cu and drilling has returned grades of up to 1.14% Cu and 10.2 g/t Ag over widths up to 15.5m. The Company also holds the 412km²

Daro exploration licence, located in northern Ethiopia, which targets VMS style copper-gold deposits. Daro hosts a significant number of alluvial and hard rock artisanal gold mines while a 2kg float sample of gossanous rock has returned 34.3% Cu.

Cameroon - Bauxite Project - the 601km² Birsok & Mandoum bauxite exploration licences in central Cameroon through its 97.3% owned subsidiary Aluvance Ltd. The Birsok & Mandoum licences are subject to a joint venture agreement with ASX-listed Canyon Resources Ltd. The project is contiguous with exploration licences owned by Canyon, covering the potentially substantial Minim Martap bauxite deposit. The project is within 10km of an operating rail line to the port of Douala on the Atlantic Ocean.

Liberia - Gold Projects - the 639.6km² Bella Yella and 466km² Zolowo gold exploration licences in north-western Liberia through its 99% owned subsidiary Auramin Ltd. The licences target Archaean greenstone-hosted gold deposits. At Bella Yella a 7.5 kms NE-SW striking gold in soil anomaly has been defined. A number of artisanal gold workings have been discovered, from which rock chip assay results have returned grades up to 233 g/t Au. Zolowo hosts a 33 kms long greenstone belt from which numerous drainages are being worked by artisanal gold miners.

Cameroon - Iron Ore Project - the 400km² Bikoula & Ndjele iron ore exploration licences in southern Cameroon through its 97.3% owned subsidiary Aluvance Ltd. The project hosts an independent (JORC 2012 compliant), Inferred mineral resource estimate comprising 46Mt @ 44% Fe completed by Coffey Mining South Africa in a report entitled "Mineral Resource Estimation and Classification of the Bikoula Iron Ore Project in Cameroon". The resource estimate is from less than 25% of the 17 kms long target as identified from airborne geophysics.

Morocco - Other Projects - a further 226km² across five exploration licence across Morocco, through its 100% owned subsidiary Aterian Resources Ltd. The licences areas are prospective for Zinc, Lead, Copper, Tin, Tungsten and Gold. Grades gleaned thus far from these licences include 8.15% Pb, 4.48% Zn, 9.18% Cu and 9.61 g/t Au

Fish or Fowl?

Technically ALS is a project generator which does minimal early stage (read low-cost) exploration to advance projects intending to bring in bigger companies for the big ticket exploration with ALS retaining a stake. The strategy is not to "explore it and they will come" and in 2018 the company undertook "early stage" exploration (i.e. not drilling) on five of its African projects.

Given that to run ALS and do this low cost exploration cost £1.8mn last year, investors seem to assume that a fund raising for exploration may be near to hand. However, the logic (though maybe flawed) is that a relatively rapid turnover of assets to the joint venturers will keep the funds flowing in.

In recent transactions Altus has agreed:

- to sell to Canyon Resources (CAY.ax - a related party) the aforementioned interest in a

Cameroon bauxite project for 30mn CAY shares (value £3.8mn today) while retaining a US\$1.50 /tonne royalty on bauxite ore mined and sold from the project. Altus expended less than US\$125,000 on generating the project prior to the JVA

- to sell to Auramin (a related party) two projects (in Liberia and Cameroon) for a series of cash and share payments of up to AUD\$9mn (on total success),while retaining a 2.5% Net Smelter Return production royalty on both projects.

Some jungle drums suggest that a JV agreement (with royalty built-in) will be reached soon on one or more of the Mali gold projects as there are several other players in the region for whom bulking up of concentrate flows makes sense.

We have heard it posited that Altus is a project generator morphing into a royalty company. The later type of vehicle has been having a bit of a renaissance at the moment, however should that model stumble we have no doubts that Altus will be flexible enough to recast itself amongst the more traditionalist project generators that like being bought out or offered a free-carry.

We added a position in the Model Mining Portfolio at the end of June with a 12-month target price of CAD 24 cents.

Speciality Metals International (SEI.ax)

This company is on a short trajectory to becoming a tungsten concentrate producer from its flagship project, the Mt Carbine tungsten mine, in far North Queensland which is some 130kms by road from Cairns. This stock was formerly called Carbine Tungsten.

After what seems an eternity, it has finally secured the freehold of its Mt Carbine project via the acquisition of 100% of Mt Carbine Quarries Pty Ltd, an entity that owns and operates the Mt Carbine quarry and mining leases ML4867 and ML4919 in recent weeks.

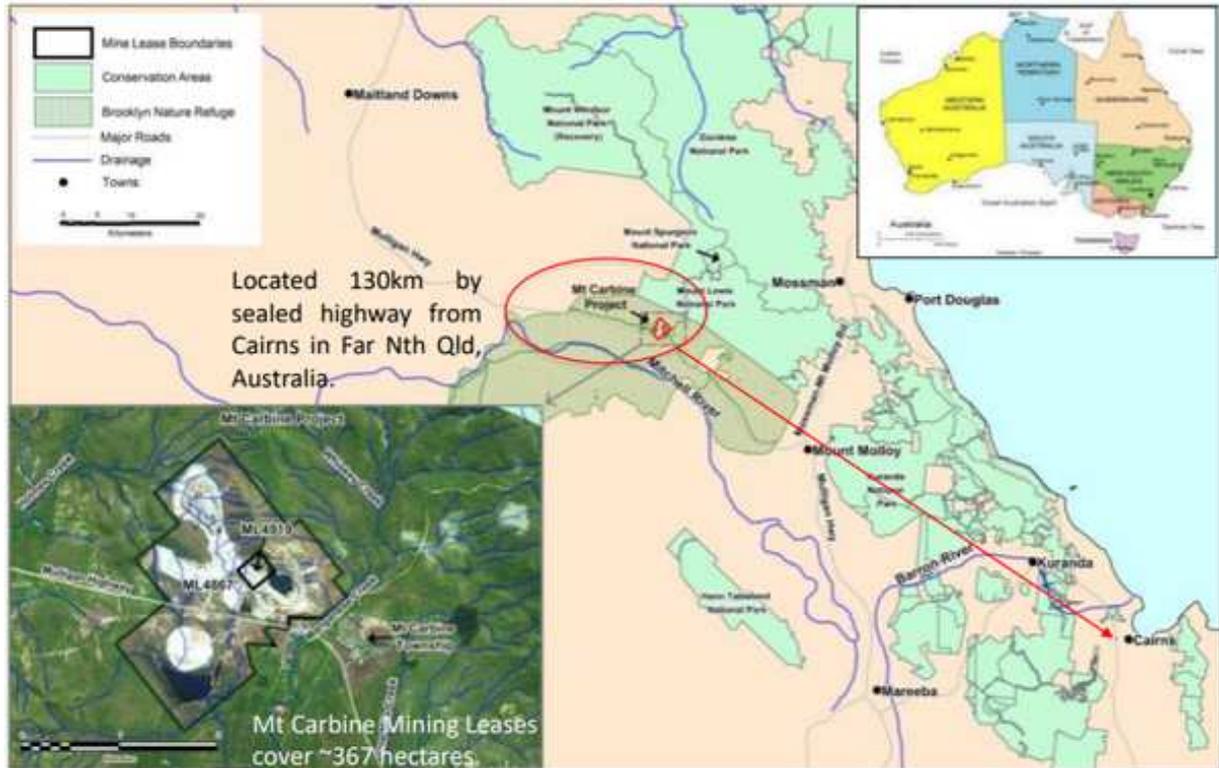
The most exciting part of this is the JV is with (yet again) a German group. The Joint Venture is held 50% each by:

- Mt Carbine Retreatment, a wholly owned subsidiary of Speciality Metals
- Cronimet Australia, a wholly owned subsidiary of Cronimet,

Cronimet is a subsidiary of the privately owned Cronimet Holding GmbH which was founded in 1980 as a raw materials service provider and trader in Karlsruhe, Germany. The German company has grown organically since then to become a diversified commodity group with over 5,200 employees and activities in over 50 countries.

At the beginning there shall be production from the tailings anticipated to be 50 tonnes of WO₃ per month (5,000 metric tonne units or mtu's per month). Then the company shall move on to exploiting the

resources still in the ground. One to watch, we suspect.



This company has appeared on our radar before and we wrote on it early in the decade when likewise its goal was to become a producer of tungsten concentrate through its Tailings Retreatment Project to be followed by the re-awakening of the Hard Rock open-cut mine which was scheduled to commence production in 2016. The best laid plans of mice and men fell foul of the Chinese sabotage of the APT price which took half a decade to awake from its slumbers.

The Mt Carbine deposit was discovered at the end of the 19th Century, and has been a major tungsten producer in the past. The deposit is still relatively unexplored and the company feels that there is potential for new tungsten mineralisation in the Mining Leases and surrounding exploration tenements. When it last operated between 1973 and 1987, the Mt Carbine mine produced exceptionally high grade concentrate, and was in the lowest quartile of cost of production for global tungsten producers.

The Mt Carbine tungsten mineralisation is similar to several other large tungsten deposits around the world, for example some of the deposits in southern China, Spain and southern UK (Hemmerdon), in that it is low grade (the grade of the inferred hard-rock resource at Mt Carbine is 0.14% WO₃ at a cut-off of 0.05% WO₃).

Therefore the tailings will, wisely, be the focus for the short term.

In recent days the company triggered a cascade of transactions:

- Tranche 2 Placement: Issuance of 160,000,000 shares to sophisticated and professional investors
- MCQ acquisition went unconditional with settlement is scheduled for Friday, 28 June 2019
- Commencement of Joint Venture: the unincorporated Joint Venture between Speciality Metals and Cronimet Asia Pte Ltd (Cronimet) for the development of the Mt Carbine Tungsten Tailings Retreatment and Stockpile Projects has commenced.

Clearly this company is one to watch and with experienced German money committed to getting the operation going we see again the Germans prioritizing securing strategic Tungsten supplies to forestall the Chinese in attempts to strangle the German machine tool industry.

Parting Shot

The decade long Supercycle has spoiled the mining market's participants. It has now been replaced with not only the mini-boom (lithium and cobalt in 2017) but now the microboom (which Rare Earths and Gold experienced sequentially in June of 2019). It's actually pretty sad when a boom is reduced to two weeks and two weeks only.

The surge in Rare Earths was so brief that if one had gone for an average two week holiday one could have come back and laughed at anyone that said there had been a REE Boom... alas, likewise for gold.. Blink and you miss it.

In the investment banking world we speak of the "financing window" and of this window opening and closing. This is probably a hangover from the "discount window" that the Fed used to operate for the Money Centre Banks (remember them?). Instead the "financing window" these days is banging open and shut like those of a Key West hovel in a Force Nine hurricane... or worse like a Feydeau farce.

All of this is giving mining market participants a bad dose of manic depression, with price movements in the metals being like the worst ride at Hershey Park. Worse though is that nothing happens in the fleeting flutters of recovery. Nearly no-one is ready for it and by the time a financing is ready the price has faded and investors are afraid that price of both the metal and the stock will be lower than before the enthusiasm set in.

Gold may yet come back... but Rare Earths have been mistakenly pinned to Chinese reprisals alone (when there are better and more lasting reasons to feel bullish). The best thing that could happen to the space is for Weedmania to ebb and let the sunlight reach down to the (mining) seedlings on the forest floor that have been too long deprived of the light.

Mining Model Portfolio as at: 29th June 2019

Security		Initiated	Currency	Avg. Price	Current	Portfolio Weighting	Change in Value	12-mth Target
Long Equities								
Large/Mid-Cap	Teck Resources (TECK.B)	5/29/2009	CAD	22.46	30.22	7.8%	34.6%	\$38.00
	Sherritt International (S.to)	7/11/2013	CAD	1.28	0.20	1.3%	-84.3%	\$1.00
	Metals X (MLX.ax)	5/29/2014	AUD	0.67	0.25	2.0%	-62.7%	\$0.80
Uranium	Uranium Participation Corp (U.to)	10/20/2010	CAD	5.36	4.20	6.2%	-21.7%	\$6.00
	GoviEx (GXU.v)	6/29/2015	CAD	0.08	0.16	3.8%	94.7%	\$0.50
Zinc/Lead Plays	Zinc ETF (Zinc.L)	6/2/2010	USD	7.63	7.79	6.8%	2.2%	\$11.00
	NorZinc (NZC.to)	12/9/2011	CAD	0.82	0.095	0.3%	-86.0%	\$0.22
	Myanmar Metals (MYL.ax)	11/29/2018	AUD	0.06	0.06	2.2%	0.0%	\$0.13
	Ascendant Resources (ASND.v)	10/31/2016	CAD	0.49	1.00	5.5%	104.5%	\$1.70
Silver	Telson Mining (TSN.V)	3/19/2018	CAD	0.79	0.32	2.1%	-59.5%	\$2.00
	Excellor Resources (EXN.to)	11/8/2018	CAD	0.74	0.99	3.9%	33.8%	\$1.35
	Southern Silver Exploration (SSV.v)	8/25/2016	CAD	0.49	0.18	0.9%	-62.9%	\$0.35
Gold Producers	Para Resources (PBR.v)	2/17/2017	CAD	0.23	0.19	1.9%	-17.4%	\$0.58
	Westgold (WGX.ax)	12/6/2016	AUD	2.01	1.88	3.3%	-6.5%	\$1.50
Coking Coal	Colonial Coal (CAD.v)	6/4/2018	CAD	0.35	0.42	3.3%	20.0%	\$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	0.30	0.19	0.4%	-36.7%	\$0.35
Tungsten Producer	Almonty Industries (AII.v)	7/31/2015	CAD	0.36	0.82	8.1%	126.3%	\$1.00
Copper Explorers	Phoenix Copper (PGM.L)	9/28/2018	GBP	0.35	0.16	1.2%	-55.1%	\$0.74
	Panoro Minerals (PML.v)	1/22/2018	CAD	0.37	0.15	0.9%	-58.9%	\$0.65
	Argonaut Resources (ARE.ax)	11/22/2018	AUD	0.02	0.01	0.9%	-44.4%	\$0.05
Vanadium Developer	Western Copper & Gold (WRN.to)	4/25/2017	CAD	1.57	0.85	1.7%	-45.9%	\$2.74
	Tando Resources (TNO.ax)	11/23/2018	AUD	0.11	0.08	1.9%	-27.3%	\$0.50
Lithium	Neometals (NMT.ax)	7/31/2014	AUD	0.30	0.21	3.6%	-30.7%	\$0.45
	Lithium Power Intl (LPI.ax)	10/25/2017	AUD	0.44	0.28	1.5%	-36.4%	\$1.38
Scandium Explorer	Scandium International (SCY.to)	8/23/2016	CAD	0.14	0.13	1.5%	-7.1%	\$0.50
	Platina Resources (PGM.ax)	10/25/2018	AUD	0.07	0.04	1.5%	-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	0.17	7.7%	-17.1%	\$0.45
	Gunpoint Exploration (GUN.v)	11/9/2018	CAD	0.50	0.45	1.8%	-9.1%	\$0.75
Cesium et al.	Lepidico (LPD.ax)	4/18/2019	AUD	0.04	0.03	1.6%	-23.1%	\$0.08
Rare Earths	Northern Minerals (NTU.ax)	6/9/2011	AUD	0.14	0.08	2.4%	-43.3%	\$0.28
	Neomaterials (NEO.to)	10/25/2018	CAD	17.32	12.51	3.7%	-27.8%	\$23.00
Mining Media/Events	Aspermont (ASP.ax)	3/1/2019	AUD	0.01	0.01	3.6%	11.1%	\$0.02
Unlisted Suspended/RTO	New Noble Group	15/11/2017	SGD	0.20	n/a	n/a	n/a	
	Cabo Drilling (CBE.v)	9/28/2016	CAD	0.03	0.02	n/a	-40.0%	
NET CASH						203,230		
Short Equities								
Shorts	NioCorp (NIO.to)	9/28/2018	CAD	0.61	0.55	73.4%	9.8%	\$0.40
	Galane Gold (GG.v)	4/28/2016	CAD	0.06	0.06	26.6%	0.0%	\$0.03

Current Cash Position	203,230
Current Liability on Shorts Not Covered	189,622
Net Cash	392,852
Bonds	0
Current Value of Long Equities	3,867,992
TOTAL VALUE OF PORTFOLIO (USD)	4,260,844

Short Equities	-5%
Long Equities	105%

Wednesday, July 3, 2019

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