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HALLGARTEN & COMPANY

Portfolio Strategy

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Model Resources Portfolio:

Underwhelming TMX

Performance Review – May 2021

Model Resources Portfolio

Underwhelming TMX

- **Zinc challenging its 2020 highs again**
- **Gold and silver attempted to challenge their 2021 highs**
- **Copper holding up well**
- **Tin teeters on the verge of record territory**
- **US recovery in full swing… too early to call on others though with some Asian economies with poor vaccination rates now suffering belated 2nd and 3rd waves**
- ✘ **Many of the base metals seem to have found a ceiling – at least for the moment**
- ✘ **New listings of mining stories on TMX-controlled exchanges have been exceptionally poor in 2021**

Wave Ahoy

A veritable tsunami of mining listings appears to be about to engulf capital markets. However it is interesting to look at the new listings list of the TSX going back to the start of 2021 and frankly it would seem that the wave is passing the TSX by. We see a mere one listing in May (Triple Flag Precious Metals). In April there was another one mining debut (i-80 Gold Corp) amidst an indecent surfeit of crypto issues. March saw Augusta Gold and Altius Renewable Royalties (?) make the lists. February added Aris Gold and Solaris Resources, beginning their listed lives. The year began with Monarch Mining in January. Frankly this looks like a bear market rather than a bull one. Is this a deliberate policy of the TSX?

We tried the same search of the TSX-v and could only find 14 listings…. In nearly half a year? This is a redefinition of pathetic. We knew that new listings were hearing the siren song of the CSE but never realized it was this bad. Maybe the TMX's poor reputation for governance and efficiency (or lack thereof in both cases) is finally catching up with it.

The CSE is hot, hot, hot with those eschewing the TSX-v finding a friendly welcome at its competitor.

The London market is just stirring from a long hibernation, but all the action is in Standard Listing with the AIM being regarded as something of a leper colony (though some foreigners still think it's the place for a secondary listing despite all its negatives). More on this anon.

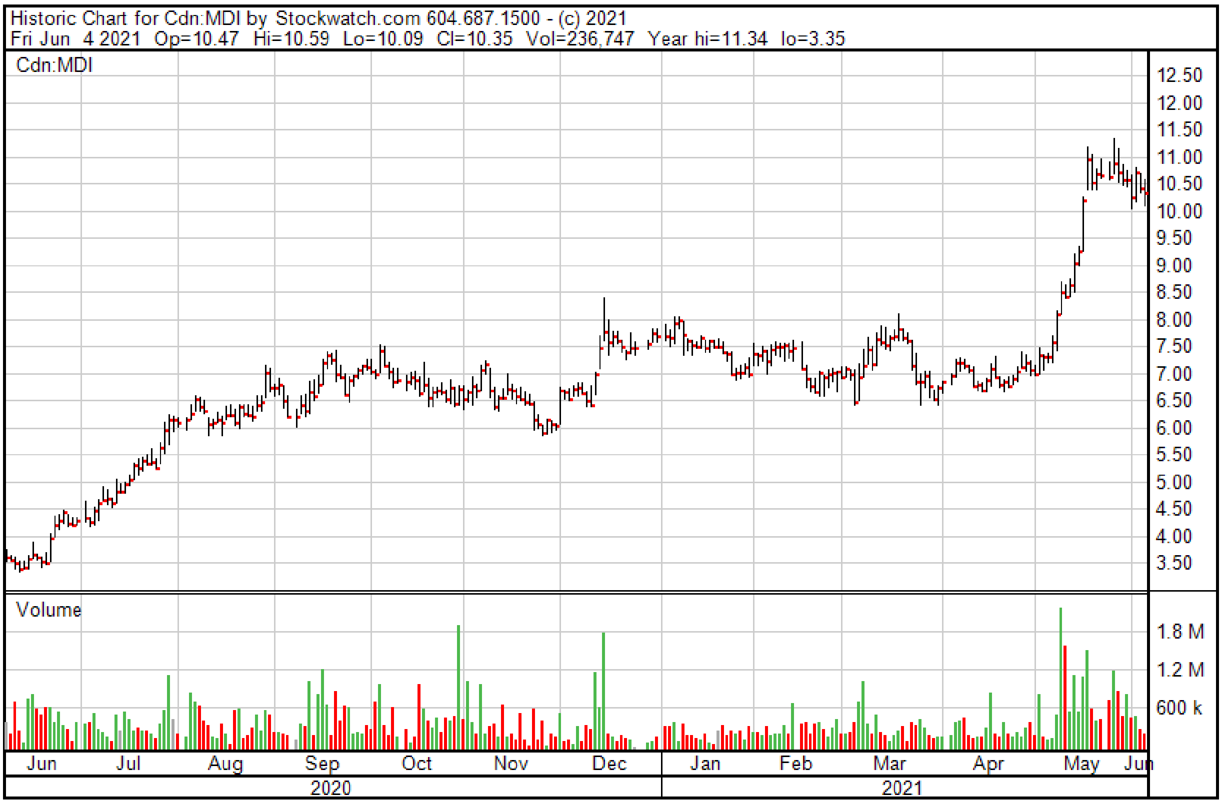
The ASX is harvesting the revived mining boom in a way that the TMX seems blithely unmotivated to do.

We have long suspected the TSX would prefer to see shells repurposed as new vehicles rather than have the hassle of dealing with *de novo* listings. This strategy has resulted in the holders of these zombie entities now quoting prices of up to $2mn for their "empty vessels". This is patently ridiculous. Clearly the TSX's short-sightedness is serving the CSE well and while it's going to be a long while until the CSE's current count of 215 miners overhauls that of the TSX-v, Bay Street should not forget the old parable of the Hare & the Tortoise.

Drillers Spinning

All accounts from the field suggest that available drills are now as rare as hen's teeth. It was only a few years back that companies pursuing this activity looked like dead-men walking. For quite a long while we had Cabo Drilling as our exposure until it threw in the towel.

A glance at the share chart of Major Drilling (TSX:MDI) shows that this twist on the old adage of selling shovels to the miners, rather than being a miners, also applies to drillers.



Portfolio Changes

There were no changes in the Model Resources Portfolio during the month of May.

Galane Gold (TSX-v:GG) – Flightless Turkey

Once again this landbound bird has failed to gain escape velocity so has repositioned itself to another nest. We (re)opened a SHORT position in March of this year with a twelve-month target price of 15cts. We have long been bears on its declining mining assets in Botswana, it massive debt (a goodly chunk being to the Botswana government for defaulted royalty payments) and its sad misadventures in South Africa and yet still we were bemused (after reinsitituting our SHORT) to see the company had decided to wander off to the US South West for its future upside. We can only repeat that old adage that if Galane started to make hats then people would be born without heads.

It was in mid-March that Galane announced that it has entered into a binding to acquire the Summit Mine and the infrastructure constituting the Banner Mill in New Mexico from Pyramid Peak Mining, LLC, a wholly-owned subsidiary of Waterton Precious Metals Fund.

The aggregate consideration to be paid was US$17mn, consisting of:

- cash consideration of US$6mn
- issuance to the seller of 16 million common shares of Galane at a deemed issuance price of CAD$0.22 per share and 16 mn warrants at an exercise price of CAD$0.30 per share for a period of three years from closing
- cash consideration of US$8.2 million upon commencement of production at the Mine.

To fund this Galane entered into an engagement letter with Canaccord Genuity for a CAD$9mn private placement of subscription receipts, with a lead order from Palisades Goldcorp.

Waterton is a well-known name (say no more). “Taking candy from babies” might be their favorite sport. The mine that Galane is splashing so much money on has a resource of only 100,000 ozs of gold, of which only 25,768 ozs are in the Indicated category, the rest being Inferred. Thin gruel indeed.

This would appear to be a new low for Galane. We reiterate our **SHORT** call on this stock.

Neometals – Vanadium Rising

Ever since we have known Neometals (or Reed Resources as it then was) it has been involved in the Vanadium space. Firstly it was the large Barrambie project in Western Australia, which is still wending its way towards development. Secondly there is the Vanadium slag recycling project in Sweden/Finland that surfaced a number of years ago and looks like overtaking Barrambie in the race to market.

In early May the company published a PFS on its joint venture with the Scandinavian steel giant SSAB. The PFS indicated a strong case for recovering vanadium from Vanadium-bearing steelmaking by-products stockpiled at steel production sites in the far north of Sweden and Finland.

The main findings were:

+ Annual production of 13.4 million pounds of high-purity Vanadium pentoxide secured by a 10-year supply agreement with Scandinavian steelmaker SSAB

+ Lowest quartile cash cost (US$4.25/pound) with potential to lower with by-product/carbon credits

+ Net Present Value (@10%) of US$230mn and pre-tax IRR of 31% on 100% ownership basis

+ Completion of Pilot Plant trials and award of Feasibility Study on schedule for July 2021 to enable potential final investment decision in the second half of 2022

Vanadium's gyrations over the last twenty years have been the metals worst enemy. The boom to bust to boom nature of pricing has sucked in investors then spat them out, with a vengeance. The spike to $30 a couple of years ago was almost the nail in the coffin of those who sustained a high price scenario for the metal. They had been fooled once too often. Moreover it was clear the Chinese construction industry was not prepared to pay that much for Vanadium-steel rebar alloys while the Vanadium Redox Flow battery makers were emphatic that prices of over $10 per lb made them unviable.

But Vanadium currently sits beneath $10 per lb, therefore it is in the territory where it can slug it out with other battery elements for a place in the sun (literally). The determination of Neometals to pursue Vanadium over the many price cycles in the last 15 years looks set to be rewarded, particularly in light of the low cash-cost of $4.25 per lb. It should be noted though that the PFS assumes a selling price of US$10.19/lb V_2O_5 , including a purity premium.

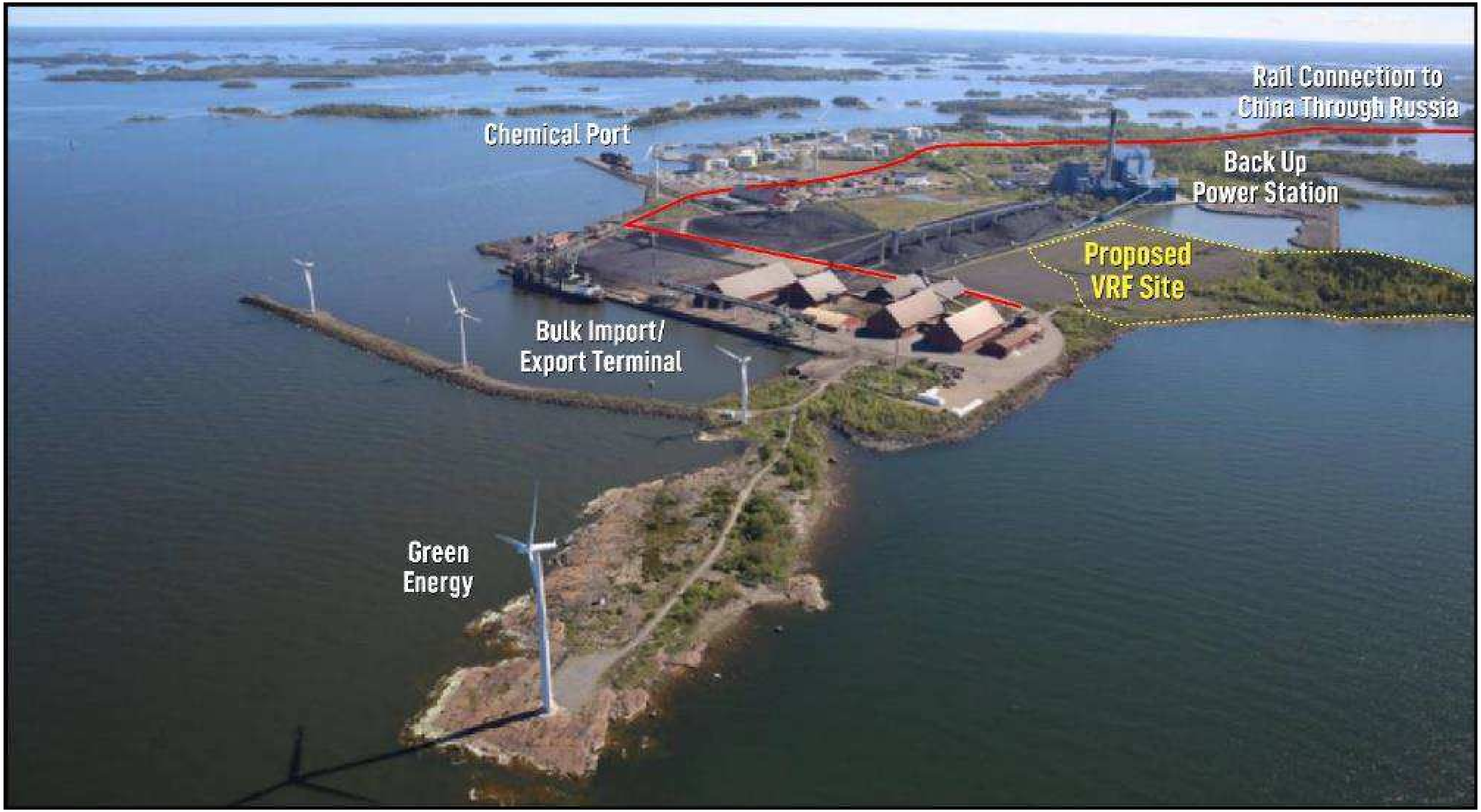
To achieve this low cash cost Neometals has developed a proprietary processing method to recover Vanadium from steel slag. This hydrometallurgical process utilises conventional equipment and operates at atmospheric pressure and mild temperatures.

The testing of the selected flowsheet was completed at the Mini-Pilot Plant in Perth and resulted in product purities of greater than 99.5% V_2O_5 with metallurgical recoveries exceeding 77.5%. The data from the operation of the Mini-Pilot Plant was captured in a process design criteria and mass balance and was utilised to develop the latest PFS (-20% +25%) operating expenditure and capital expenditure numbers for a 200,000 dry metric tpa hydrometallurgical processing circuit.

The PFS was based on establishing an operation at Tahkoluoto Port, Pori in Finland with a capex estimated at US$183.4mn. The latter number is still rather eye-wateringly high. We would certainly prefer to see this somehow converted into a phased build/spend that could soften the blow.

With NMT offloading its guaranteed offtake on Mt Marion during May for AUD$30mn, and its ongoing round of transactions, there is never a dull moment at this stock and it makes value at every turn, justifying our long-term faith and this year's market rerating. We reiterate our **LONG** rating and raised our 12-month target price to AUD$0.60cts.

Below can be seen the proposed site of the Vanadium Recovery Facility in the Tahkoluoto Port, Pori in Finland



AIM – Off-Target?

It is interesting to note that Neometals, with a fairly strong following in the UK, is going ahead with a secondary listing on the AIM market. It will not be the last to do so but definitely it is being iconoclastic in heading into a market that most others want to get out of. The only reason for going to the AIM these days is if one is a mining company that is a serial financing junkie and that is most definitely NOT Neometals.

Everyone else regards it as a dead-end, and the Standard List of the LSE is attracting the vast bulk of miners seeking a London listing. As well as being way simpler and way cheaper it also does not have the NomAd requirement, so companies can avoid those nasty trolls lurking under the bridge ready to pounce on the unwary.

Parting Shot

Totally unrelated to Neometals, we would note a more sinister trend with London listings. Two stocks come to mind, both of which decamped from other exchanges to “upgrade” to the London market. One was on the TSX-v with a project we loathed in Mexico. It did a move to the London market a couple of years ago.

Then there is a stock that has recently fled the ASX to bed itself down in London and then abandoned its listing Downunder.

A secondary listing to reach a greater audience is one thing, and to be applauded. However, looking at the two culprits, we unfortunately can only presume that the secondary listing in London, then delisting on the home exchange, is actually fired more by a desire to not have to cater to the tougher geological and economic reporting conditions in Australia and Canada. In effect both companies had something to hide and being forced to “open their kimonos” on dubious metallurgy, geology, grade or economics (or radioactivity) is the only explanation for their indecent haste to “get the hell out of Dodge”.

You know who you are… we know who you are…. More investors should see these bogus relocations and also know who you are. *Caveat emptor*.

MODEL RESOURCES PORTFOLIO @ END MAY

	Security	Currency	Price	Change last 12 mths	Change last mth	12-mth Target
LONG EQUITIES						
Diversified Large/Mid-Cap	Teck Resources (TECK.B)	CAD	30.25	131%	16%	$25.00
	Hochschild (HOC.L)	GBP	2.01	2%	7%	£3.40
Uranium	Uranium Participation Corp (U.to)	CAD	5.73	12%	7%	$6.00
	GoviEx (GXU.v)	CAD	0.31	94%	3%	$0.30
Zinc/Lead Plays	WisdomTree Zinc ETF (Zinc.L)	USD	9.47	50%	6%	$9.00
	Myanmar Metals (MYL.ax)	AUD	0.07	40%	0%	$0.15
	Telson Mining (TSN.V)	CAD	0.73	813%	24%	$1.20
Silver Producer	Excellon Resources (EXN.to)	CAD	3.49	336%	6%	$5.50
Silver Explorer	Southern Silver Exploration (SSV.v)	CAD	1.28	125%	-2%	$1.80
Silver ETF	IShares Silver ETF (SLV)	USD	26.06	56%	9%	$26.00
Gold Producer	Soma Gold (SOMA.v)	CAD	0.34	89%	-3%	$1.20
Coking Coal	Colonial Coal (CAD.v)	CAD	0.67	49%	-1%	$1.10
Project Generator	Altus Strategies (ALS.L)	GBP	0.6445	-98%	2%	£1.00
Copper Explorers	Panoro Minerals (PML.v)	CAD	0.16	100%	-6%	$0.30
	Phoenix Copper (PXC)	GBP	0.48	85%	28%	£0.65
Tungsten Producer	Almonty Industries (AII.v)	CAD	1.22	130%	13%	$1.25
Vanadium Developer	Vanadium Resources (VR8.ax)	AUD	0.05	150%	0%	$0.05
Lithium	Neometals (NMT.ax)	AUD	0.53	212%	0%	$0.60
	Lithium Power Intl (LPI.ax)	AUD	0.20	54%	-26%	$0.30
Scandium Developer	Scandium International (SCY.to)	CAD	0.25	213%	39%	$0.16
Gold Explorer	Cabral Gold (CBR.v)	CAD	0.58	346%	26%	$0.60
	BTU Metals (BTU.v)	CAD	0.14	-33%	17%	$0.42
	Gunpoint Exploration (GUN.v)	CAD	0.66	20%	-1%	$0.75
	Bold Ventures (BOL.v)	CAD	0.09	80%	13%	$0.18
Fertilizers	Verde Agritech (NPK.to)	CAD	1.28	125%	-2%	$2.00
Cesium et al.	Essential Metals (ESS.ax)	AUD	0.09	800%	-10%	$0.30
Rare Earths	Rainbow Rare Earths (RBW.L)	GBP	0.148	401%	-10%	£0.30
	Neo Performance Materials (NEO.to)	CAD	17.28	131%	-14%	$24.00
Tin Miner	Alphamin (AFM.v)	CAD	0.75	525%	19%	$0.80
	Metals X (MLX.ax)	AUD	0.28	211%	17%	$0.30
Oil & Gas	Shell A (RDSA.L)	GBP	13.40	-1%	3%	£14.90
Royalties	Elemental Royalties (ELE.v)	CAD	1.51	n/a	5%	$2.30
SHORT EQUITIES						
Shorts	NioCorp (NIO.to)	CAD	1.23	73%	-8%	$0.40
	Galane Gold (TSX-v:GG)	CAD	0.23	64%	-4%	$0.15
	Texas Mineral Resources (TMRC)	USD	2.12	10%	-3%	$0.30

Important disclosures

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