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HALLGARTEN & COMPANY

Portfolio Strategy

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Model Mining Portfolio:

All Zoomed Out & Nowhere to Hide

Performance Review – October 2020

Model Mining Portfolio

All Zoomed Out & Nowhere to Hide

- + **Base metals have held up well during market instability**
- + **Copper is sustained above the key resistance at $3 per lb and looks ready for another leg higher**
- + **Zinc moved up to above $1.15**
- + **Financing activity in Canada and Australia looks very strong**
- + **Tin moved soared to a new recent high and unfortunately then nearly lost $900 per tonne before turning up again…. Wild times**
- + **Antimony broke through the $6,000 per ton mark**
- ✘ **Gold continues to be range-bound lacking upward momentum**
- ✘ **Deceptive growth numbers out of China (brutally massaged) are leading many to think global growth is stronger than it really is**
- ✘ **A defeat of Donald Trump will leave the critical metals space without one of its major boosters, with Rare Earths in particularly dependent on Washington war-drums for their momentum**

Zoom – A Plague Upon All our Houses

No man is an island, and yet the corporates in the mining space imagine that investors/analysts/bagladies are just sitting by their email waiting for their 50th invitation on the week to a Zoom call with yet another mining company. What makes them think we have nothing better to do than spend an hour running through the presentation we can read in 10 minutes of our own time? Have they ever asked themselves what new is there for the recipient when the listener hears all the amazing "new" stuff happening at Silver Wheaton. Really, we would not go to a presentation in person with Silver Wheaton, so why would we waste time sitting at home listening to the same company.

Back in the (g)olden days (i.e.pre-March) we would take the occasional Web-ex "town hall" call, mainly to be polite. They tended to be organized out of New York and it was deemed acceptable for London listeners to these calls to forego their evening activities to reactivate the laptop at 9pm to watch the call because that is when NY traders ceased dealing on the NYSE. This got old quickly and we had already issued a *fatwa* against any calls after 5pm well before the Wuhan Virus swept in to disrupt lives. The purveyors of "out of hours" calls then felt it was acceptable again to tout evening calls to London and European "viewers" because they were all "working for home" and thus didn't care anymore what hour of the day it was. Wrong! We can tell companies and their call-touts that we still do care what we do in our evenings, even if it's just Netflix.

In the first wave of the virus as personal meetings died an instant death and all conferences/seminars, whether local or overseas were guillotined. Between March and June there was a certain "phoney war" between companies and their "listeners". Listeners were polite and took many of the calls and a certain group of companies and their IR firms were fast off the mark in grabbing Zoom, Teams, Hop-up, Freeconferencecall or whatever as a means to interact with the WFH crowd.

The technology has now become abused and tiresome. As IR people, down to the most humble exponent, have grasped the technologies so has this plague (and we are not talking of the virus) spread globally. Part of the problem has been the low barriers to entry and now everyman and his dog is touting themselves as giving "corporate access" and most of it consists of brow-beating/begging potential listeners to get on a webcall. Those companies in Vancouver that used to say snootily "we don't do Whatsapp" are now all over it. When before we had to cajole them to join to get cheaper calls, now we don't want their number on our dlaller in case they think they can call us at all hours of the day (and night) wanting to "arrange a Zoom".

No, no, no, no, no….

We are fed up, everyone we know is fed up. Even those lower-level HNW's who were called once in a blue moon, or never invited to lunches/events, are now fed up.

Gripes started rising in mid-summer. This was the time when the promotorial classes used to go sun themselves and leave investors in peace to do the same. Having no vacations also meant having no boundaries. The number of call invitations we accepted shrunk inversely with the soaring number of invites we received. We now must be receiving between 50-80 invites a week. And this is before we consider the "Bumper Month" of November shortly upon us. There are four major "London-based" conferences (and as many niche events) that were scheduled for this month. We are turning down invites at ALL of them and every company. The reality is that the companies that interest us we can call direct to make a meeting at any time of mutual convenience. Why should we (or they) be electronically corralled into an all-day mega-timewaster without even the prospect of a canape and a reviving glass of wine at the end of the ordeal.

Now one has to supply one's one booze to make it through the post 5pm meetings and make sure the other end don't see you sipping or hear the clink or ice on glass as its only 9am on the West Coast and the sun is not over their yardarm. Facing these calls without fortification is the investor/analyst's equivalent of wearing a hair-shirt.

October was the month we decided to call time on Zoom and its replicants. We shall also have a dry November and December and ergo into the future. One organizer was shocked to be told "call us back when you have your first physical meeting next year". There goes his business model. We have also said we will not be doing presentations, chats or intros at such events either. What is in it for us to do this?

At a real meeting people would come up to us after the event and exchange cards and backslap or gripe. Now the attendees are the faceless, largely nameless "+47" which are off-screen to the right. What good does that do us?!

We have also noted that one of the events were we were turned down by a couple of years ago have now automatically registered us and started a barrage of "meeting request" emails to an event we haven't even signaled interest in (in fact, we have eschewed it).

Why do companies pay for these events? Largely because it is costing them way less than their international flights, hotel rooms, dinners, attendance fees, booth rentals used to, Meanwhile the mining sector is in boom mode and the unspent IR budgets are piling up around them. Here's an idea, maybe they should pay the long-suffering "listeners" to attend their calls. That might revive acceptances.

It's time to call "Time!" on this fatuous trend. Call us next April and tell us where your event is. If you are proposing that it's on our desktop, don't waste the cost of your Whatsapp call…

Portfolio Changes

We closed out our Long Position in Ascendant Resources (ASND.v). Exiting production to pursue a project with a CapEx higher than its NPV is a red-flag for us. We added a LONG position in Atalaya Mining (AIM: ATYM, TSX: AYM) on the first day of September. We have renamed the portfolio as the Model Resources Portfolio and added a LONG position in Shell A shares (RDSA.L). This brings us full circle back to our days of covering the US O&G space pre-2008 and the Argentine energy sector in the 1990s.

Northern Minerals – R&D to the Rescue?

The market, justifiably responded well to the final resolution of the company's travails with the Australian Tax Office (ATO) on the issue of reimbursement of R&D expenditures. The struggle was truly titanic and hung for years over the company's future, driving its price nearly into the ground and forcing several heavily discounted financings.

On 24 August 2020 it was announced that the company had settled with the ATO on previously disputed tax offset claims for the financial years ended 30 June 2017 and 2018. Or maybe one could say the ATO had settled with NTU. The net cashflow effect of the settlement agreement for the financial years ended 30 June 2017, 2018 and 2019 was a net refund of $9,921,638 payable around mid-September 2020.

The August settlement also provided a framework for calculating the refundable R&D tax offset claim for FY2020 and, in the first days of October, NTU advised that it had lodged its tax return and a refundable R&D tax offset claim of AUD$8.7mn with the ATO for the 30 June 2020 financial year.

News of the August deal sent the stock sharply higher. It then drooped before rallying again in October to test the recent highs. However, it has now started drifting lower again in the run-up to the Trump

Administration's date with destiny, which risks casting the whole Rare Earth space back into the "Who cares?" category.

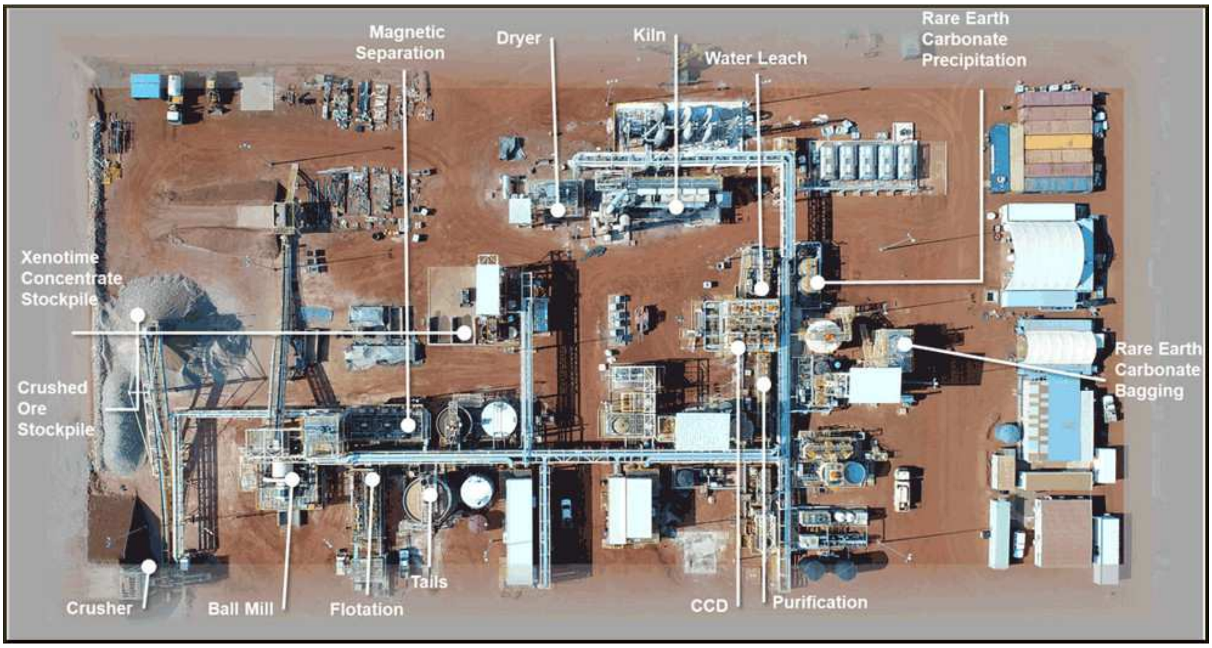
However to plug the hole in the meantime the company had gained approval back in June for a private placement for $22mn, which had closed on the 15th of September 2020 with the issuance of 145,000,000 fully paid ordinary shares to subscribers. The combination of the placing plus the refund makes NTU a well-padded player for the first time in ages.

In late September the company gained regulatory approvals for the installation of ore sorting at Browns Range. We had been hearing about this potential addition to the plant for years now. Previous trials of ore sorting technology at Browns Range, announced in October 2018, identified the potential to double the mill feed grade, leading to an increased production rate of Heavy Rare Earth carbonate and a potential lowering of overall operating costs.

Both the Western Australian Office of the Environmental Protection Agency and the Department of Water and Environmental Regulation have cleared the installation and commissioning.

The planned ore sorting equipment concentrates ore prior to the beneficiation circuit by selecting ore and rejecting waste based on x-ray transmission. Management claims that this has the potential to double the feed grade and reduce production costs. The total capital investment for the procurement, installation and commissioning of the ore sorter is budgeted at AUD$5.9mn. Construction has commenced on the structural and mechanical equipment (as can be seen below) with commissioning scheduled for mid-2021.

To date, Browns Range has produced a mixed Heavy Rare Earth (HREE) carbonate for small-scale export to off-take partners. The options being assessed would take a further step along the supply chain to produce separated HREE oxides.



It had previously been announced in August 2019 that the company had commenced a scoping study with US company (known to us), K-Technologies, to investigate a separation technology on intermediate mixed Rare Earths materials produced at Browns Range. K-Tech's technology is focused on continuous ion exchange (CIX), continuous ion-chromatography (CIC) and related advanced separation methodologies.

In a recent update management stated that the study was progressing, with positive test results being achieved at K-Tech's facilities in Florida albeit slower than planned because of constraints associated with COVID-19. Though we suspect the straightened finances (until recently) at NTU also impacted.

Management expects to see separated Dysprosium and Terbium oxides from the study before the end of this year.

Aside from its collaboration with K-Tech, NTU is pursuing studies into traditional solvent extraction to produce oxides from the mixed HREE material produced at Browns Range.

We remain fans of NTU chiefly because it is the only HREE play in town… or anywhere else for that matter. We remain perplexed though as to why it never announces any production numbers although it seems to be a producer. It seemed that some of its travails with the ATO may have been caused by claiming to be in a R&D mode and yet selling output, which would make it a commercial operation. We are merely speculating though, but this might explain why they wouldn't want to talk about "sales". Frankly though, at this moment in time, having any sales, particularly of HREE, is a major feather in the cap and should be trumpeted. With the ATO issue behind it now we need to be hearing more about what is being sold and what might be being sold. Upgrading the ore sorter and then to not sort anything seems somewhat of a pyrrhic victory.

We have to admit to being dissatisfied also with the failure to engineer a rollback. This stock has just too many shares on issue. We maintain our **LONG** position in Model Resources Portfolio with a 12-month target price of AUD$0.07.

Atalaya Mining (ATYM.L) – Reigning in Spain

If one were to believe Berkeley Energia then the judges are out on the possibilities of advancing mining projects in Spain. However, there is more to mining in Spain than uranium in Salamanca. Indeed, as we noted several years ago in our report on our mine trip to Almonty's Tungsten mine near Salamanca, the country (and region) is not anti-mining at all.

However there are pluses and minuses to Spain these days. We have noted nervousness in regional governments towards any sort of mining, particularly when there is an election on the horizon. We have been waiting a long time to see a certain property in Extremadura come up for tender and have been told that it's due to the provincial government being on the run from Green elements. The problem though is that this region has the worst unemployment in all of Spain and a brutally high rate of youth unemployment.

Likewise when communicating recently with Atalaya Mining, they related the problems that they have had with their Touro project in the north-western province of Galicia where similarly an election has resulted in them receiving a setback in their plans to reopen mining activities there. We start to see a pattern of areas of Spain that suck enthusiastically from the udder of EU subsidies thinking that they do not need to indulge in "dirty" industries. Instead these zones become economic deserts with the young decamping to become *baristas* in London. That game is over in case they have not noticed.

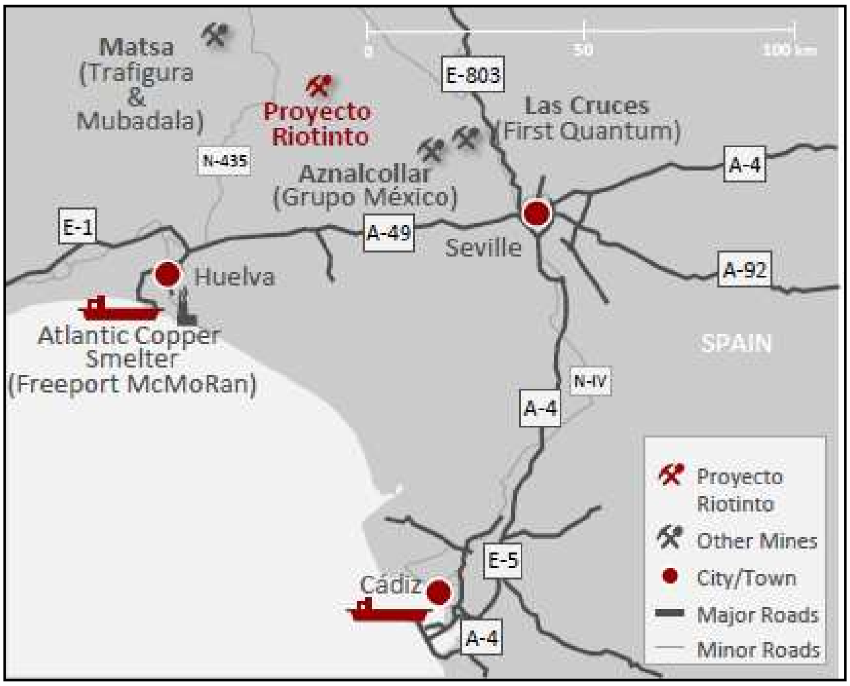
Some Background

Firstly it might be noted that Atalaya is the reincarnation of the old EMED Mining, of unfond memory. This company was primarily focused on exploration efforts in Cyprus but all those operations are now gone. However the company still has a legacy of a debt piece which it is in the process of accumulating funds to pay down.

Riotinto

The name of this project is freighted with history and, yes, it is the place where RTZ had its roots in the 19th century.

The contrast with the travails in Galicia could not be more poignant with the company's experience in the southern province of Andalucia, where mining is enthusiastically embraced. It is as if the company is operating in two different countries.



In the south, Atalaya Mining owns 100% of its Riotinto operation via a wholly-owned Spanish subsidiary. The asset is part of the famed complex that gave RTZ its name back in the 19th century and consists of an open-pit copper mine in the Iberian Pyrite Belt, 65 km northwest of Seville.

The mine has great infrastructure with access to power and water and is located 75 km from the Huelva smelter and a major seaport.

Atalaya declared commercial production as of 1 February 2016 at an initial processing rate of 5mn tpa and reached nameplate capacity of 9.5mn tpa in January 2017.

Since then the commercial production rate has increased to 15mn tpa following the completion of the Proyecto Riotinto Expansion Project in January 2020.

Currently there are over 400 employees and some 400 contractors permanently working on site, making it a significant contributor to the local economy.

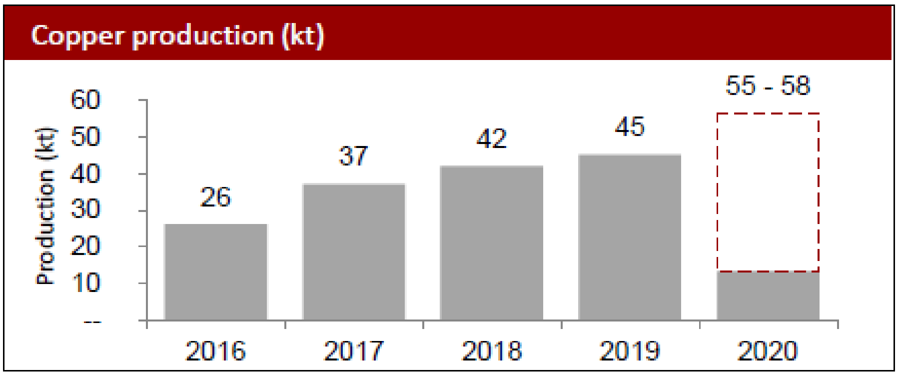
Resource

The recently updated NI 43-101 estimates Proven and Probable Ore Reserves totalling 197 million tonnes at 0.42% copper (0.82 million tonnes of contained copper). Measured and Indicated Mineral Resources total 258 million tonnes at 0.40% copper.

	Ore (Mt)	Copper (%)
RESERVES*		
Proven	128	0.41
Probable	69	0.44
TOTAL	197	0.42
RESOURCES (inclusive of reserves)*		
Measured	152	0.39
Indicated	106	0.40
TOTAL	258	0.40
Inferred	18	0.50

Results

Production has been on the rise, understandably, as the added capacity was added. The company has signaled 2020 production to be around 20% than in the preceding year.



Despite the rapidly declining price of copper in the latter part of the first quarter, the company reported production of 13,200 tonnes Cu with a cash cost of US$1.99/lb and an AISC of US$2.27/lb with EBITDA of €9.3m.

Its guidance for FY20 is for production of 55 –58,000 tonnes Cu with cash costs of US$1.95-US$2.05/lb and an AISC:US$2.20-US$2.30/lb.

With an AISC of slightly over $2 per lb, every addition to the copper price obviously flows straight down to the bottom line (or at least the EBITDA)

Who's Who on the Register

The company's share register is pretty heavyweight, with only a 22% float, after the worthies have got themselves into position. Many of them are competitors of each other in the commodity trading and financing world. One almost gets the impression that none of these wish to sell their position in case they are bested long term by one of their rivals.

Major shareholders (as at 19 June 2020)		
Holder	# shares	% ISC
Urion Mining International (Trafigura)	30,821,213	22.4
Yanggu Xiangguang Copper (XGC)	30,706,232	22.4
Liberty Metals & Mining	19,578,947	14.3
Orion Mine Finance	18,786,609	13.7
Cobas Asset Management, SGIIC, S.A.	6,958,851	5.1
Other shareholders	30,487,274	22.2
Total	137,339,126	100.0

Touro

All is not smooth sailing though. As we alluded earlier, the company had a setback when the Environment Department of the Xunta de Galicia issued a negative impact declaration for the Touro project, denying Atalaya's application to restart copper production at the former open-pit mine.

The Touro copper project is comprised of several deposits of which four: Arinteiro, Vieiro, Bama and Brandelos have previously been mined, as can be noted in the aerial view to the right.

Another two – Monte de las Minas and Arca – have not been mined.

The regional government turned down the project's environmental impact assessment in January, citing concern over the mine's impact on the Ulla river and related protected ecosystems.

The restart proposal for the Touro project included managing past environmental liabilities and using transfer mining techniques with zero water discharge. Flotation tailings were to be stored in a plastic-lined impoundment built with compacted rock walls using techniques similar to those used in water dam construction.

According to a 2018 prefeasibility study, the project has proven and probable reserves of 90.91 million tonnes grading 0.43% copper, for contained copper of 392,000 tonnes. The study envisages the construction of an open pit mine and concentrator, with average yearly production of 30,000 tonnes of copper and 70,000 ozs of silver in concentrate.

The company indicated in April 2020 that it was assessing its options to progress the Touro project and that these could include several types of appeal or modified project proposals to address the concerns of the Xunta de Galicia.

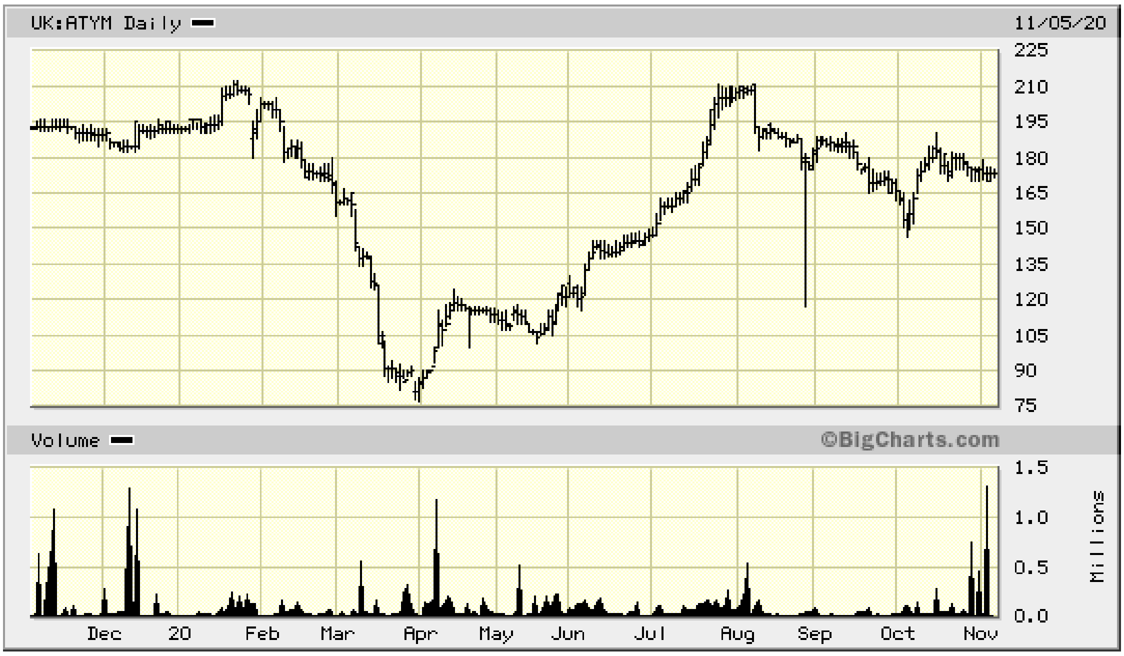
To reinforce this message to Galicia of “we shall go hunting elsewhere, in late October, the company announced the acquisition of the Masa Valverde project. This is one of the largest undeveloped volcanogenic massive sulphide (VMS) deposits in the prolific Iberian Pyrite Belt and 28kms SW of Proyecto Riotinto.

Historic total inferred resources at the Masa Valverde deposit are 66mn tonnes at 0.67% Cu, 1.92% Zn, 0.90 % Pb, 34 g/t Ag and 0.63 g/t Au (or 2.57% Cu eq.) divided in several zones.

From our conversation, it appeared the company has been looking farther afield (as far as Peru) for alternatives if the *gallegos* don’t wake up and smell the coffee.

A Perverse Trend

The stock has been doodling lower since August despite copper heading in the opposite direction.



Riding the Red Metal

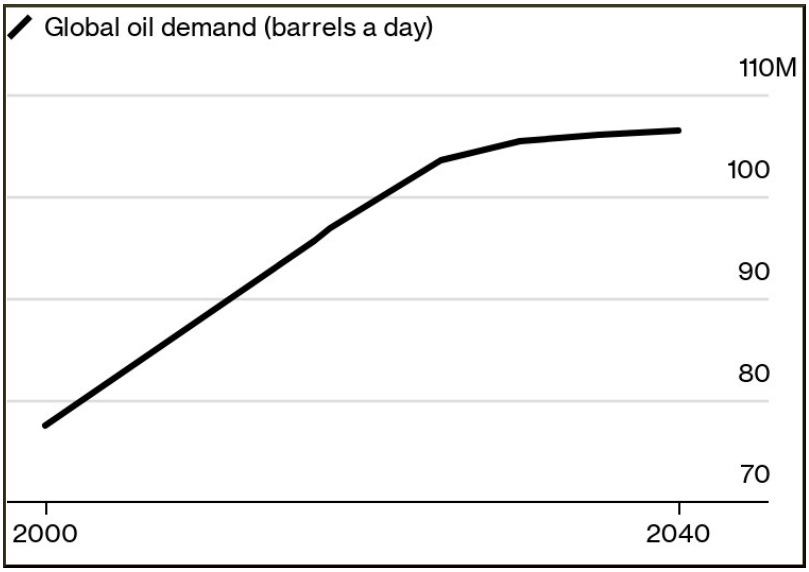
Despite rising earnings, a dividend must await the paying off a party malingering around since the days of EMED.

In light of copper's turn for the better and the likelihood of the debt being paid down and a move to the dividend paying lists, we have added a **LONG** position in Atalaya to the Model Mining Portfolio with a 12-month target price of 225p.

Shell – Feeling Iconoclastic

For something to be as deeply unfashionable as the oil majors, then there must be something right with the space. Conventional wisdom would have that oil companies are going the way of the dodo with EV's ruling the roost. The Paris Accords have proven to be merely a figleaf for China's still rampant carbon abuses (don't mention the CFCs). Trump decided to withdraw, Biden will grab the figleaf and paste it back on (gruesome image, we know).

The shocking thing about the sell-off in Big Oil has been that the vendors don't seem to have noticed that even the ritziest projections of EV penetration still have the reduction in ICE vehicles just "blowing the froth off the beer" in oil consumption growth. As the following graphic from the IEA 2019 survey shows the outlook is far from Apocalypse Now, or even Apocalypse Later.



Source: IEA/Bloomberg

Shell's slide has been brutal and it has itself partly to blame for virtue-signalling against its own interests. This is presumably in obeisance to departing institutional investors (pension funds and their ilk). Our attitude is that if they are departing then why pander to them?

One might muse (aloud) that if it wasn't for the Virus Crisis knocking back the oil price then earnings in FY20 for Big Oil shouldn't have been much altered from FY19. Ergo, the effect of EV's on earnings is likely nil.

In recent weeks the company announced adjusted earnings for the third quarter reached $955mn (£739mn), beating analyst forecasts of a mere $146m profit. The result was still well below the $4.76bn in the same quarter last year, but who is surprised about that considering the wringer the companies in the space have been through?

Costs were also down as it reduced capex and cut its costs and making 9,000 staff redundant (10% of the global workforce), in order to reduce its debt.

Shell is issuing a dividend at 16.65cts, which it had cut from 47 cents to 16 cents a share in April because of the "crisis of uncertainty" facing oil companies amid the pandemic.

In announcing its results it said that it had probably reached its "high point" for oil production at about 1.7mn barrels a day last year. In a repeat of its "*kumbaya* strategy" it reiterated plans to channel more capital towards renewable energy, hydrogen and its growing electricity business.

At the same time the company projected oil prices to average $35 a barrel in 2020, rising to $40 in 2021, $50 in 2022 and $60 in 2023. The average oil price last year was $64.36 a barrel. Sure the fall has been brutal but the price upside, in the company's own projections, is pretty rosy. Is anyone projecting unit revenues for wind or solar energy producers to rise by that magnitude?

We would see Big Oil going from being a mainstay of no-brainer pension funds to being the plaything of value-investors, hedge funds and index trackers. We are adding a **LONG** position of the Model Resources Portfolio with a 12-month target price of $15.50.

Parting Shot

Usually our update on the long term metals price outlook comes out at the start of each year then is largely left intact until the start of the next year. The current year 2020 has been such a traumatic experience for everyone that am earlier review is called for.

We have finessed our base metals estimates with most coming down slightly. We see a recessionary global economy in 2021 so ebullience in base metals is hard to envisage. Slightly higher prices than 2020 are possible though as the impact of longer term underinvestment continues to bite, tightening up supplies/production.

Precious metals we see slightly higher in FY21, but nothing like the move of this year.

Specialty metals we see higher in varying degrees. Antimony, Vanadium and Tin we are much higher than where they currently trade, with more subdued moves in Cobalt and Tungsten.

Below can be seen a table with our projections.

Hallgarten & Company - Metals Estimates

	Unit	End 2019 Actual	End 2021
Lead	lb	$0.87	$0.95
	tonne	$1,917	$2,094
Zinc	lb	$1.04	$1.32
	tonne	$2,292	$2,909
Copper	lb	$2.80	$3.40
	tonne	$6,171	$7,494
Gold	oz	$1,520	$2,100
Silver	oz	$17.85	$28.00
Platinum	oz	$976	$950
Palladium	oz	$1,901	$1,150
Uranium (spot)	lb	$25.15	$32.00
Antimony	tonne	$6,050	$7,400
Tungsten APT	MTU	$240	$290
Tin	tonne	$17,200	$20,600
Cobalt	lb	$14.63	$18.00
Vanadium	lb	$6.00	$13.00
Nickel	lb	$6.30	$8.50
	tonne	$13,885	$18,734
Moly	lb	$9.21	$9.90

MODEL RESOURCES PORTFOLIO @ END OCTOBER

	Security	Currency	Price	Change last 12 mths	Change last mth	12-mth Target
LONG EQUITIES						
Diversified Large/Mid-Cap	Teck Resources (TECK.B)	CAD	17.51	-18%	-8%	$22.00
Uranium	Uranium Participation Corp (U.to)	CAD	4.00	-6%	-1%	$6.00
	GoviEx (GXU.v)	CAD	0.14	-13%	8%	$0.17
Zinc/Lead Plays	WisdomTree Zinc ETF (Zinc.L)	USD	7.91	6%	7%	$9.00
	Myanmar Metals (MYL.ax)	AUD	0.07	40%	-22%	$0.15
	Telson Mining (TSN.V)	CAD	0.28	40%	0%	$0.50
Silver Producer	Excellon Resources (EXN.to)	CAD	3.00	223%	-21%	$5.50
Silver Explorer	Southern Silver Exploration (SSV.v)	CAD	0.65	141%	-3%	$0.80
Silver ETF	IShares Silver ETF (SLV)	USD	21.99	38%	-1%	$26.00
Gold Producer	Soma Gold (SOMA.v)	CAD	0.39	225%	-22%	$1.20
	McEwen Mining (MUX)	USD	0.97	-41%	-9%	$1.60
Coking Coal	Colonial Coal (CAD.v)	CAD	0.79	163%	4%	$1.10
Project Generator	Altus Strategies (ALS.L)	GBP	59.9	166%	0%	£40.00
Copper Explorers	Panoro Minerals (PML.v)	CAD	0.12	9%	0%	$0.30
	Phoenix Copper (PXC)	GBP	42.5	183%	-3%	£0.65
Tungsten Producer	Almonty Industries (AII.v)	CAD	0.63	-14%	-16%	$0.90
Vanadium Developer	Vanadium Resources (VR8.ax)	AUD	0.03	-40%	0%	$0.05
Lithium	Neometals (NMT.ax)	AUD	0.19	6%	0%	$0.45
	Lithium Power Intl (LPI.ax)	AUD	0.18	-44%	0%	$0.30
Scandium Developer	Scandium International (SCY.to)	CAD	0.12	-4%	0%	$0.16
Gold Explorer	Cabral Gold (CBR.v)	CAD	0.51	229%	-39%	$0.60
	BTU Metals (BTU.v)	CAD	0.20	82%	-9%	$0.42
	Gunpoint Exploration (GUN.v)	CAD	0.67	22%	-16%	$0.75
Fertilizers	Verde Agritech (NPK.to)	CAD	0.65	12%	-3%	$0.90
Cesium et al.	Essential Metals (ESS.ax)	AUD	0.09	-55%	-18%	$0.30
Rare Earths	Northern Minerals (NTU.ax)	AUD	0.03	-42%	0%	$0.08
	Neo Performance Materials (NEO.to)	CAD	11.64	-7%	8%	$14.00
Tin Miner	Alphamin (AFM.v)	CAD	0.21	17%	-5%	$0.48
	Metals X (MLX.ax)	AUD	0.08	-58%	14%	$0.14
Oil & Gas	Shell A (RDSA.L)	GBP	9.25	-60%	2%	£14.90
Mining Media/Events	Aspermont (ASP.ax)	AUD	0.01	-9%	0%	$0.03
SHORT EQUITIES						
Shorts	NioCorp (NIO.to)	CAD	0.80	54%	3%	$0.40
	Texas Mineral Resources (TMRC)	USD	1.44	220%	-6%	$0.30
	Abdn Standard Palladium Trust (PALL)	USD	207.83	46%	-4%	$180.00

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