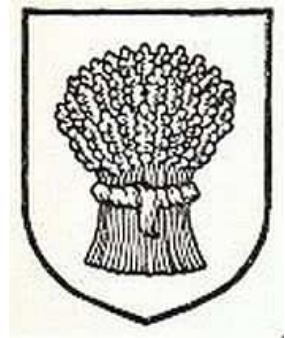


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HALLGARTEN & COMPANY

Portfolio Strategy

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Model Resources Portfolio: Peak Green?

Performance Review – October 2021

Model Resources Portfolio

Peak Green?

- + Peak Green may have been reached, which will be a relief to many in the mining space who find the self-flagellation tiring and frankly painful
- + A few large M&A transactions are starting to surface, stirring the waters and prompting investors to ask “Who next?”
- + Gold and silver perked up with inflation fears being the main motor of upward movement
- + Tin continued to flirt with the \$40K per tonne price level as supplies remain extremely tight
- + Oil maintains a strong and strengthening position despite the Zeitgeist
- ✗ The COP 26 is in full-flight and has spurred ignorant commentators and politicians to venture that the world can do without mining
- ✗ Shipping rates took a massive turn downwards at the very end of the month, with a suspicion that Chinese manipulation was at play, but have now turned up again

All Greened Out?

The COP26 event represents a new high (low?) in public hysteria over the so-called Climate Crisis. It actually tempts us to wonder whether we have reached “Peak Green” where the airwaves are so full of greenness, to the exclusion of all other colours that the global dialogue cannot possibly get any greener. It is indeed a leprechaun’s idea of heaven but for many of the rest of us it is quite hellacious.

The decline (and hopefully, fall) of the Zoom meeting has been matched by the resurgence of the in-person conference but alas a plague of speakers referencing ESG to the exclusion of everything else risks driving attendees back into their bunkers. As one speaker noted at a recent event the mining industry has been practicing ESG in many places for many years without giving it a name or converting it into a Holy Crusade.

As for COP26, we knew flocks of people who were flocking to it and then were surprised to see them flocking back home two or three days later. They could not wait to get out of the event.

With China effectively having torpedoed Great Power solidarity (and can’t say we blame them) the rest of the participants were at a loss as to what to say. The Paris Agreement had been shredded like a Banksy artwork. We had been surprised to see it described as legally binding and look forward to seeing who will be game enough to take Beijing to whatever court that must be adjudicated at. Greta, your

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move...

A new low was reached when the President of Portugal claimed that mining could be done away with. He clearly didn't get the memo that Portugal has been and still is to an extent one of the major Tungsten producers... sigh.

The arm-waving of the virtue-signaling crowd is now so ubiquitous that it resembles the concert crowd scene at the end of Bohemian Rhapsody.



The Silly Season is just getting sillier. Mining professionals are muttering under their breath about the ridiculousness of it all. We were asked by a new company recently what they should do about their ESG policy and we replied "copy someone else's from their website".

The next phase (and maybe the denouement) will be when the public realises that the whole thing is a con perpetrated by the 1% upon all the rest. At a session in recent weeks, one pundit estimated that 30% of the population won't be able to afford or maintain EVs. The heaviest burden will fall on the non-urban working class and lower middle class, who will be up the creek without an EV. They won't even be able to buy a used one as these great inventions only have an eight-year lifespan.

When this revelation starts to spread then we shall have the "heads on pikes" moment when a significant chunk of the population are blasted back to the 1880s transport-wise (but without horses as an option – they make too much methane, dontcha know?). Aux armes, citoyennes!

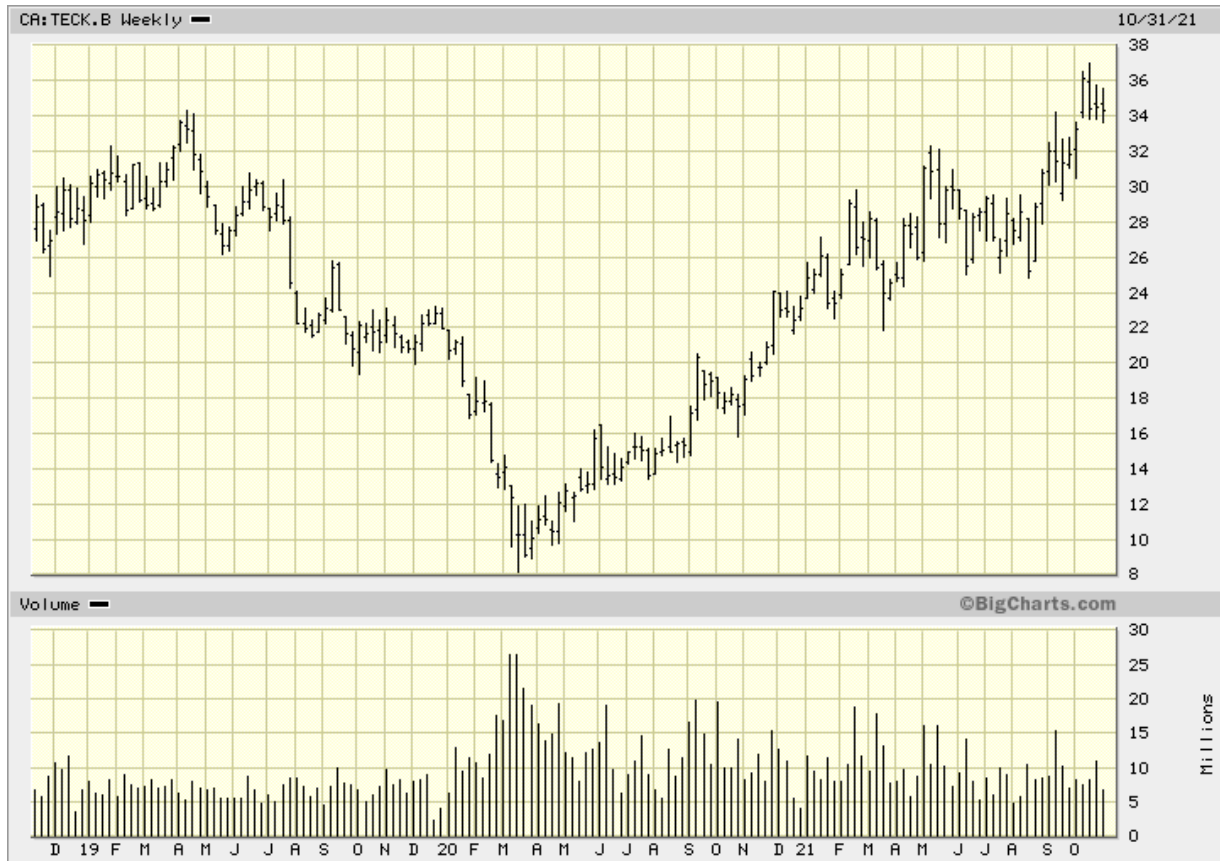
Brace yourself for the moment of revelation. Peak Green (or maybe even more frighteningly Soylent Green) may have been reached.

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Teck: The One that Got Away

While Kinross has distanced itself from many of the mistakes made in the last bull market, Teck (then Teck Cominco) is still joined at the hip with the disastrous Fording Coal purchase at the peak of the mining Supercycle period. With the perfect opportunity to walk away from this mistake in the chaos of the crash of 2008, Teck persisted and has been paying the price ever since. Not only did it cause well over a decade of undervaluation of Teck's stock but it cramped its room to manoeuvre on new purchases and removed the credibility of its actions. Like Kinross, any potential transactions would have been put under extra-strong investor scrutiny.

The price of Teck though has started to resurge of late driven by its quality portfolio of residual assets (though even sentiment has turned positive towards met coal as we have noted in recent editions of this monthly). The three-year chart below though shows that the stock is only just again trading above its previous three-year highs.



Then, on the horizon appeared the mooted sale of the Santa Rita mine, one of the largest open pit nickel sulphide mines in the world, located in Bahia State. This mine restarted operations early last year and is producing the equivalent of roughly 20,000 tons of nickel annually.

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In late September our interest had been piqued with a story from the leading Brazilian newspaper, *O Estado de S. Paulo* newspaper, citing anonymous sources that Teck was in pursuit of these Nickel assets.

However, less than a month later Appian Capital, the private equity fund, announced the sale of its Brazilian mining interests, namely Atlantic Nickel and Mineração Vale Verde, to Sibanye-Stillwater for an eye-watering cash consideration of US\$1bn and an additional 5% NSR (ouch!) royalty on production from the Santa Rita underground expansion.

Appian had acquired Atlantic Nickel (previously Mirabela Nickel, which we once covered), owner of Santa Rita, out of bankruptcy in 2018. The same year it also purchased MVV, owner of the Serrote greenfield open-pit copper-gold asset located in Alagoas, Brazil. Having purchased the Santa Rita asset for something like \$68mn, Appian has clearly done itself a very canny deal indeed.

The restart of Atlantic Nickel and commissioning of MVV, was concurrent with resurgent base metals markets, in particular nickel and copper for electric vehicles. Appian reportedly juggled a number of strategies to exit the assets, including a public listing. It was said that the “multi-stage dual-track process” generated interest from a large number of groups globally looking to gain exposure to so-called “decarbonisation metals”. Appian claimed to have chosen Sibanye for the strength of its bid and its “focus on ESG”. The entire workforce of Atlantic Nickel and MVV, which Appian grew from around 50 to 3,387 employees, will transfer to Sibanye.

With mega-scale Nickel projects firmly stuck in the starting gates by the outsized (mainly above \$10bn) capex attached to them, no major has the desire to repeat after the cost overrun debacles of Goro and Ambatovy.

A move into Nickel would have been a fascinating turn for Teck and signaled the group was recovering its mojo after the Fording debacle of well-over ten years ago. However, it seems they walked away from what many see as some quite egregious terms to the Santa Rita transaction, particularly the brutal 5% NSR. Teck are getting better at dodging bullets.

There are plenty more Nickel assets out there. One idea Teck might consider is making a move on the perpetually underperforming Sherritt International, which we long held in our Model Portfolio before ditching it a few years back, but which has clueless management that long-reveled in the poison pill that its Moa Bay asset in Cuba afforded it.

Sherritt – A Sitting Duck

Low-profile and Toronto-based Sherritt is a world leader in the mining and refining of nickel and cobalt from lateritic ores with projects and operations in Canada, Cuba and formerly Madagascar. Its key asset is a nickel mining joint venture with the Cuban government.

Sherritt not only has the Nickel/Cobalt mining assets at Moa Bay in Cuba, but also the major nickel refinery in Saskatchewan.



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The 50/50 partnership, formed in 1994, involves the extraction and processing of nickel and cobalt from an open pit mine at Moa Bay in eastern Cuba.

The laterite nickel ore is processed on site, producing mixed sulphides (containing nickel and cobalt) that are shipped in bags to Halifax, Nova Scotia and then transported by rail to a refinery in Fort Saskatchewan, Alberta.

Additionally, Sherritt licenses its proprietary technologies and provides metallurgical services to mining and refining operations worldwide.

Sherritt is also the largest independent energy producer in Cuba, with extensive oil and power operations across the island.

Ambatovy

In the first half of 2020, Sherritt exited the Ambatovy joint venture in Madagascar. This joint venture is a vertically-integrated nickel and cobalt mining, processing, refining and marketing joint venture that produces Class 1 finished nickel. Sherritt acted as operator of the facility, and was a 12% owner. The other significant partners are Sumitomo and Korea Resources Corp.

The Ambatovy mine area is located 80 km east of Antananarivo (the capital of Madagascar) near the town of Moramanga. At the mine site, the joint-venturers hold an open-pit mining operation and an ore preparation plant. From the mine, the slurried laterite ore is delivered via pipeline to a processing plant and refinery located directly south of the port of Toamasina.

The design at Ambatovy is based on Sherritt's hydrometallurgical process that has been commercially proven at the Moa Joint Venture as well as at other international commercial operations.

On a 100% basis, Ambatovy produced 33,733 tonnes of finished nickel and 2,900 tonnes of finished cobalt in 2019.

Two years ago, Sherritt announced plans to reduce its stake in the Ambatovy JV from 40% to 12%, but would remain as the mine operator. At the time, Sherritt said the decision would allow it to eliminate \$1.4bn in debt.

Then Sherritt announced in late February of 2019 that it would not fund its 12% stake in the Ambatovy JV to protect its balance sheet after Ambatovy made yet another cash call to boost short-term liquidity. Sherritt subsequently announced that it has become a defaulting shareholder on March 6, 2019.

This was after Sherritt spent 90% of the \$5.5bn that it cost to develop the asset. Such is the folly of investing in Nickel mega-projects and the rationale behind our view that we will not see the likes of Goro or Ambatovy being built again, at least not until Nickel has reestablished itself at much higher levels (consistently above \$10 per lb) for several years.

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Mystery Wrapped in Enigma

The US ban on Sherritt executives under the spurious and way outdated premise that Moa Bay supposedly really belongs to US investors (who could not point it out on a map), has long been an albatross around the neck of this stock. However we suspect that it in some way this suits management (for its poison pill value). We also suspect that the US is not averse to having a source of Cobalt in its near vicinity. But never let it be said that US policy on Cuba is hypocritical... no never.

The obvious solution to this is diplomatic but as we have often seen the Canadian Federal government is frequently less supportive of its own corporate citizenry than the interests of the US. Thus, when Canada went out on a limb to snatch the daughter of Huawei's founder, why wasn't the *quid pro quo* that issues like the Sherritt "ban" were tossed to the trash can of history? Then Canada had several of its nationals grabbed in retaliation and lost export contracts to China. While not commenting on malevolent Chinese intent, it seems that Canada has not used its leverage in this matter to get its own back scratched by the US. Very poor indeed.

If the likes of Teck were to make a move on Sherritt the first stop for the predator should be Ottawa, and not Sherritt's corporate suite, to ensure that this issue goes away once and for all. Such a takeover would make a Canadian champion in the base metals space, which it so poignantly lacks.



Its market cap is a mere \$180mn. We are adding it back into the Model Resources Portfolio as a LONG position with a 12-month target price of 95 cts, because it is now just too disgustingly cheap not to become a takeover target. It holds \$167mn in cash on its balance sheet, while shareholders equity is \$606mn.

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Portfolio Changes

There was only one movement in the Model Resources Portfolio during October with us adding a LONG position in Sherritt.

Parting Shot

We have mentioned before the back-biting in the Rare Earth space. In gold and most other metals, there is a *live & let live* attitude and indeed many precious metals explorers love nothing more than being up close and personal with someone else successful in the metal that they hope to emulate. Call it closeology, or what you will, it generally has a positive spin.

Not so in the Rare Earth space. If things were tense before and teeth were gratuitously grinding, then now things have taken a much more nasty turn with the stilettos (knives, we mean) out, and any specialty metals event is an opportunity for trying to do down one's competitors in the Rare Earth wannabe universe. The fact that so much effort is exercised on companies that are *nevergonnabes* shows the *Raft of the Medusa* quality of the REE space. You never or rarely hear "there is enough room for all of us", even though the "us" these days is less than 50 companies, when in 2011 it was between 200-300 entities. The reality is that deep down the players know that less than ten will get to production and four already have. This makes the six seats left at the High Table all that more keenly fought over.

Ironically some of the more vicious comments emanate from companies that don't intend to be producers themselves and are just faking it for the cheap seats. This crowd does not like other companies moving forward because it only leaves them behind. But frankly you can't be a faker and then bad mouth the doers.

At this stage in the previous cycle (i.e. 2011) the Rare Earth wannabes were spawning like salmon in Alaska (with concomitant attrition rates later on). At the current moment, the new REE additions are merely a trickle, though this is possibly because metals prices are firing on all cylinders across all mining sub-spaces, which was not the case in the previous REE boom. The most recent listing of note is E-Tech Resources, which we have known for several years now with its Eureka deposit in Namibia.

We have not seen any shrinkage in Rare Earth wannabe numbers yet but would not be surprised if some jump ship for greener pastures as it becomes clearer that most are surplus to requirements. Some must be looking at the Battery Metals space and pondering "the road not taken". Time will tell.

MODEL RESOURCES PORTFOLIO @ END OCTOBER							
Security	Ticker	Currency	Price	Change		12-mth Target	
				last 12 mths	last mth		
LONG EQUITIES							
Diversified Large/Mid-Cap	Teck Resources	Teck.B	CAD	35.51	103%	13%	\$30.00
	Hochschild	HOC.L	GBP	1.471	-31%	11%	£3.40
	Sherritt International	S.to	CAD	0.49	145%	17%	£0.95
Uranium	Sprott Physical Uranium	U.UN.to	CAD	14.17	254%	0%	\$15.00
	GoviEx	GXU.v	CAD	0.45	221%	29%	\$0.45
Zinc/Lead Plays	WisdomTree Zinc ETF	ZINC.L	USD	10.11	28%	8%	\$9.00
	Altaley Mining	ATLY.v	CAD	0.43	54%	8%	\$0.90
Silver Explorer	Southern Silver Exploration	SSV.v	CAD	1.36	109%	6%	\$1.80
Silver ETF	IShares Silver ETF	SLV	USD	22.23	1%	8%	\$26.00
Gold Producer	Soma Gold	SOMA.v	CAD	0.37	-5%	3%	\$1.20
Metallurgical Coal	Colonial Coal	CAD.v	CAD	2.78	252%	88%	\$2.45
Project Generator	Altus Strategies	ALS.L	GBP	0.7125	-99%	-1%	£1.00
Copper Explorers	Panoro Minerals	PML.v	CAD	0.18	50%	29%	\$0.30
	Phoenix Copper	PXC.L	GBP	0.74	-98%	16%	£0.90
	C3 Metals	CCCM.v	CAD	0.21	n/a	-9%	\$0.44
Tungsten Producer	Almonty Industries	AII.v	CAD	0.9	43%	-2%	\$1.25
Vanadium Developer	Vanadium Resources	VRB.ax	AUD	0.08	167%	33%	\$0.08

MODEL RESOURCES PORTFOLIO @ END OCTOBER							
Security	Ticker	Currency	Price	Change		12-mth Target	
				last 12 mths	last mth		
LONG EQUITIES							
Lithium	Neometals	NMT.ax	AUD	1.02	437%	19%	\$1.00
	Lithium Power Intl	LPI.ax	AUD	0.50	178%	56%	\$0.30
Scandium Developer	Scandium International	SCY.to	CAD	0.18	50%	13%	\$0.25
Gold Explorer	Cabral Gold	CBR.v	CAD	0.38	-25%	0%	\$0.60
	BTU Metals	BTU.v	CAD	0.08	-60%	14%	\$0.12
	Gunpoint Exploration	GUN.v	CAD	0.60	-10%	2%	\$0.75
	Bold Ventures	BOL.v	CAD	0.11	57%	10%	\$0.18
	MetalsTech	MTC.ax	AUD	0.34	127%	-48%	\$0.68
Fertilizers	Verde Agritech	NPK.to	CAD	1.36	109%	6%	\$2.00
Cesium et al.	Essential Metals	EXX.ax	AUD	0.22	144%	38%	\$0.30
Rare Earths	Rainbow Rare Earths	RBW.L	GBP	0.1515	222%	1%	£0.30
	Neo Performance Materials	NEO.to	CAD	19.18	65%	9%	\$24.00
Tin Miner	Alphamin	AFM.v	CAD	0.92	338%	15%	\$0.80
	Metals X	MLX.ax	AUD	0.37	363%	3%	\$0.45
Oil & Gas	Shell A	RDSA.L	GBP	16.478	78%	1%	£14.90
Royalties	Elemental Royalties	ELE.v	CAD	1.35	n/a	1%	\$2.30
SHORT EQUITIES							
Shorts	NioCorp	NIO.to	CAD	0.94	18%	-6%	\$0.40
	Aya Gold & Silver	AYA.to	CAD	9.22	175%	19%	\$8.00
	Galane Gold	GG.v	CAD	0.13	-32%	30%	\$0.06
	Texas Mineral Resources	TMRC	USD	2.25	56%	56%	\$0.30

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