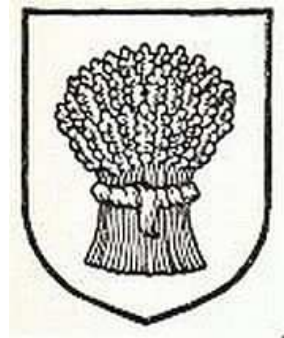


Wednesday, March 1, 2017



HALLGARTEN & COMPANY

Portfolio Strategy

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Model Mining Portfolio: “Deadbeat Dividenders”

Performance Review – February 2017

Model Mining Portfolio

Deadbeat Dividenders

- + Gold consolidated above the \$1,200 per oz level but seems to have become stuck
- + Base metals prices have doodled about but also have established bases at much higher levels than 2016
- + Nickel is much sought due to the strange gyrations of Philippines government policy
- + PGMs continue to be strongly sought
- + Rare Earths are fulfilling their own prophecies with revived interest but not much investable
- * Signs of the Trump-enthuse infrastructure splurge are not evident, particularly in the budget proposals
- * Acceptance of One China policy (for now) took heat out of enthusiasm for a shoving match between the US and China
- * China dropping taxes on base metals exports might push more metals out into global markets

Hallelujah – Uranium is Risen

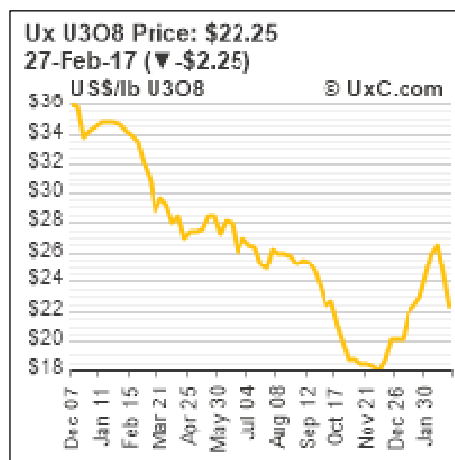
In what was a bad four years for the mining space, special punishment was reserved for the uranium sub-space where every time it tried to stagger to its feet it was dealt a new, low-blow that sent it reeling. Even as mining markets picked up in 2016, uranium was, relatively, left behind as the spot price wallowed, with that acting as an anchor holding the sub-space from moving forward. Only the Rare Earth space was doomed in 2016 to share in this “cruel and unusual” punishment.

However, the persistence of those that believe in the long term attractiveness of nuclear power has kept the space afloat and allowed even a few hardy near-producers or those holding past-producing properties to soldier on through the tough times. Now it seems the reward is at hand, but Uranium has a long way to go before many projects will cross any sort of line between loss and profit.

Price – First Swallow of Summer

The spot price of Uranium has been on a steady rise since November before a sudden dive in recent days.

The term price of uranium increased from \$30/lb to \$35/lb in the last week of January. The reason this is important is most utilities transact at the term price, not the spot price of



uranium. In fact over 80% of the uranium sold is at the term price.

The driving forces behind the increase of the higher term price are:

- Traders and intermediaries are now buying in anticipation of higher prices
- Also, South Africa received very strong support from companies interested in building new nuclear power plants. In fact, 27 companies submitted information on helping roll out the South African nuclear power program. This is a positive sign to the market that Africa is open for nuclear reactor business
- Ten spot transactions have been reported for a total of 1.5m lbs of yellowcake in January 2017
- At the beginning of February, three additional transactions were reported. One was from a US utility for 4.8m lbs to be delivered in 2023-2030 period. A non-US utility has just concluded a purchase for more than 6m lbs to be delivered in the 2018-2027 period. Then an undisclosed buyer concluded a purchase for U3O5 delivery for the 2020-2012 period

Parsing the Uranium Universe

We would divide the universe of Uranium stocks into three categories these days. There were hundreds of listed uranium plays in the heyday of the space last decade but this has now been whittled down by a brutal process of attrition driven by initially low prices, then a cycle of despair driven by seemingly secular revisionism triggered by Fukushima and then finally by the sheer lack of finance for virtually any mining space and particularly this one.

In the wake of this process we see the survivors divided into the following groups:

- Producers
- Near producers and former producers
- Advanced exploration and juniors

Normally we would put advanced exploration with near producers but the problem is that many of this category are merely wanting to be sold rather than getting into production. There will be a moment for them, a “day in the sun”, but it is not now. There are quite a number of those companies out there with sizeable reserves proved up but no real plan to move forward. When the turn in the U price comes they will be hoping to be bought by one of the producers, but there are more advanced explorers than producers so inevitably some attendees at the ball will be without partners for the dance.

Junior “juniors”, the moose pasture merchants, are basically not needed or wanted for probably the rest of this decade. If there is no resource, or a puny one, then it’s a case of “don’t call us, we’ll call you”.

The ideal place to be positioned now is in either producers or the near/former producers.

Producers will obviously be first movers, but near- and ex-producers should swiftly follow with the added advantage that they do not come freighted with long term contracts at low prices. That said, companies needing funds to go the final mile to production may be tempted to commit to contracts at revived, though still low, prices with offtakers/traders to grab that all-important final funding to make it across the production line.

Names to Conjure With

Our long-held position in the Uranium space is the physical ETF, Uranium Participation Corp, which is effectively managed by Denison. This is the quick way to get direct exposure to the metal.

In the most advanced developer category we tend to focus on Western Uranium and then after that Peninsula Energy has appeal. Berkeley Energy has excited comment by forging out a mine in Spain of all places, not the typical territory for Uranium hunters.

In the up and coming explorers, there is the Friedman satellite, GoviEx, which is run by Govind Friedland and has an extensive position in Africa. With Argentina's (re)opening to the world (and prominent position in nuclear technologies as well as adding more reactors) it is worth keeping an eye on U3O8.

Uranium's Year in the Sun?

In our outlook for 2017 for metals we posited that the year would be the Year of the Infrastructure Metal but also that the outperformers would be the two laggards of 2016, Tungsten and Uranium. Tungsten still remains in the doldrums but Uranium is making a break for the upside, probably faster than we would have imagined.

The real action will be in the term price, not the spot price, but unfortunately the spot price is what the wider world of Uranium investors look at for guidance. Now that too has started a march upwards. For better or worse Uranium has been a favorite of the speculative classes in the past (the distant past, we might add) but many people made a lot of money from it in its heyday(s). Therefore while many may have been sitting on their hands through the successive false dawns, we now may see investors who have not touched Yellowcake in a long time dusting off their chequebooks. Like other sectors long out of favour the number of available listed plays has shrunk over the years and thus the task of choosing what to invest in is made easier by having less choice. Companies that are either in production or with short lead times are obvious first movers. Greenfield stories will have less to over because they are, well, greenfield. As usual these days the old mantra of production, production, production is always a winner.

Portfolio Changes

There were two portfolio changes during the month. We exited our long held position in Everton Resources which was originally purchased for its Dominican Republic gold potential but has seemingly suffered from style-drift of late with excursions into the faddish Lithium space. This removes our last gold explorer from the ranks of the Model Portfolio.

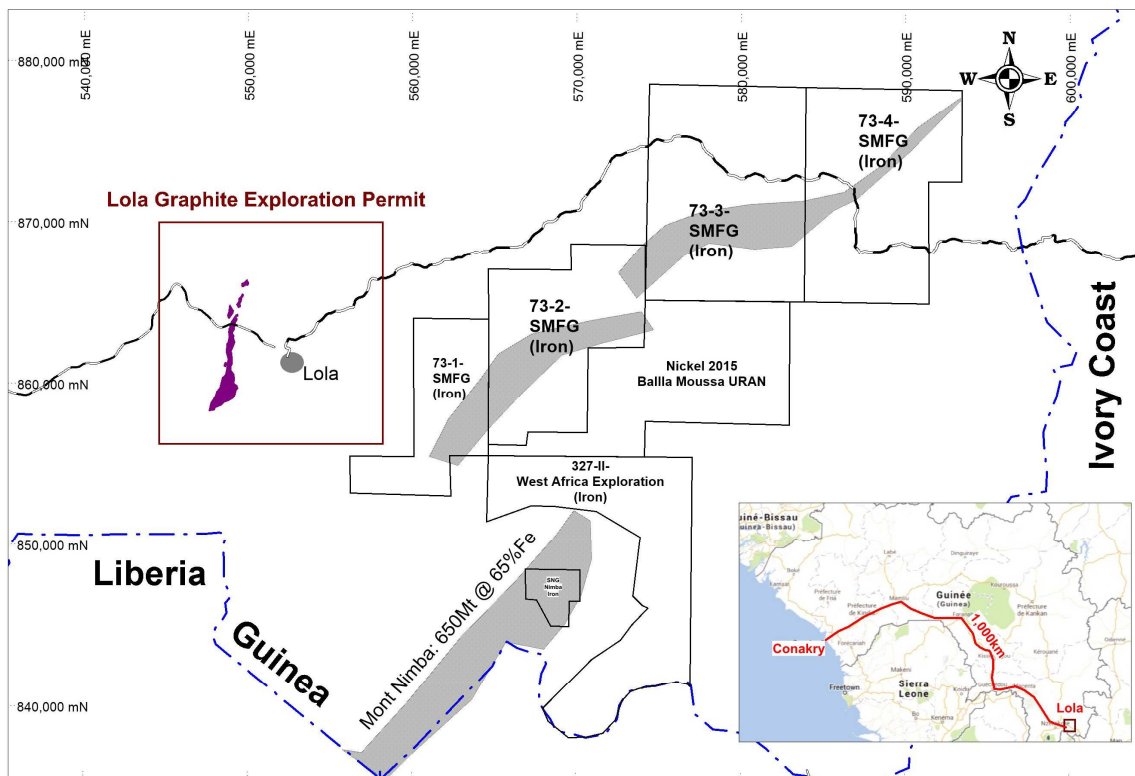
Then we added a position in Para Resources (PBR.v) with which we have had several conversations of late regarding its three-pronged move into Latin gold mining and processing. It has an interesting model of buying in ore from smaller miners (in Colombia, Nicaragua and Peru) and boosting its own throughput at its mills with this discounted but frequently higher grade material. We have a research note coming out in the near future expanding upon its attractions. Our twelve-month target price is CAD 58 cts.

The Portfolio Move

The Model Mining Portfolio ended February at \$4.449mn down slightly from the USD\$4.565mn at the end of January. Net cash declined by \$38,000 to \$938,000.

Sama Splits

One of the more complicated transactions we have seen in recent times occurred in January with our portfolio constituent Sama Resources Inc. (TSXV: SME). In early January it completed a transaction wherein it sold its graphite assets in West Africa to Sama Graphite Inc. (formerly Section Rouge Média Inc.) (TSXV: SRG) in exchange for the issuance of 24,658,267 common shares of Sama Graphite to Sama Resources, as part of a reverse take-over. This gives Sama Resources a 49% stake in the graphite entity.



The asset that underpins the new entity is the Lola Graphite occurrence which is located 3.5 kilometers west of the town of Lola in eastern Guinea, 1,000 kilometers from Conakry, the capital of the Republic of Guinea. The occurrence is within 50 kilometers of the Ivory Coast border.

The Lola Graphite deposit is present at surface over 8.7 kilometers with an average width of 370 meters, and up to 1,000 meters wide. The first 20 meters or so of the deposit is well weathered (lateralized), freeing graphite flakes from the silicate gangue and thus allowing for easy grinding and optimal recovery of all large and jumbo flakes. The graphite mineralization continues at depth within the non-weathered sheared gneiss. Sama Resources completed a total of 36 core drill holes (for a total of 800 meters) in 2014 on the deposit. The drill holes were scattered unevenly over a strike length of 5.2 kilometers of the entire 8.7-kilometer-long deposit.

The graphite mineralization is well exposed at surface over the entire strike length, with surface sample grades ranging from trace to up to 20% Cg (graphitic carbon). The mineralisation is often seen as agglomerates of high graphite concentration that can exceed 50% to 60% visible graphite content. The occurrence was originally discovered by BUMIFOM (Bureau Minier de la France Outremer) in 1951. Shortly after Guinea's declaration of independence in 1958, however, the project was abandoned and subsequently forgotten until Sama Resources "re-discovered" the deposit in 2012.

The board of directors of the "new" graphite entity will be the famed Benoit La Salle (as chairman), Marc-Antoine Audet, Marc Filion, Marcel Duchesne, and René Lessard. The Company's officers are Marc-Antoine Audet as President and CEO and Isabelle Gauthier as CFO.

Hitherto we have had exposure to graphite through Elcora, meanwhile Lola looks interesting but certainly was not our main motivation for pursuing Sama Resources. We would not be surprised though if eventually the stake in Sama Graphite is divided out to shareholders in the "parent" company.

Parting Shot

An interesting American term that we have found to be useful for other contexts was "deadbeat dads". In the original context it meant fathers who didn't meet their alimony commitment for child support. However in the context of the mining space we could use it for "deadbeat promoters", "deadbeat investors" and now "deadbeat dividenders". The latter term occurred to us just a few weeks back when Panamerican Silver was boasting of its return to the dividend lists. In this case net earnings of \$101.8 million (\$0.66 basic earnings per share) in FY16 produced a dividend of a mere 2.5cts per share. What is it that the company has that is more important than rewarding its long suffering shareholders?

We have long been critical of the scrooge-like portioning out of cash whether the times are good or bad. With "deadbeat dads" it was perceived that the sire in question was having a good time while his children were going hungry. This proves to be frighteningly like what we have seen in the Canadian mining space and we have long had an axe to grind with First Majestic in particular that seemed to feel

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that investors could press their noses up against the cold glass as much or as long as they like but they weren't being invited in from the cold. Their reward will be in the capital gains, dontcha know?

Aren't we a year into a gold recovery and even longer into a margin recovery due to the CAD and AUD both plunging? However one would never know it from the payouts and yields. Let's go through some. Eldorado Gold paying out 2 cents or a mere 0.5% yield. Goldcorp tossing out 3cts to the starving on EPS of 25cts. The supremely incompetent Barrick Gold paying out 4cts on an EPS of 75cts. Agnico Eagle paying out 13cts from EPS of 96cts for a yield of less than 1%. The hapless Kinross is not paying anything out.. for its sins. Need we go on. Canadian gold mining managements think that they know better how to invest your money than you do.

Let's put it this way, if the CEO of one of them walked up to you in the street and said he wanted your wallet so he could buy himself a present, would you give it to him? No.. didn't think so...

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Mining Model Portfolio as at: 1-Mar-17

Security	Initiated	Currency	Avg. Price	Current	Portfolio Weighting	Increase in Value	Target	
Long Equities								
Various Large/Mid-Cap	Capstone Mining (CS.to)	5/29/2009	CAD	2.32	1.58	1.70%	-31.90%	\$2.00
	NevSun (NSU)	3/23/2012	CAD	3.45	3.34	3.70%	-3.20%	\$5.00
	Sherritt International (S.to)	7/11/2013	CAD	1.78	1.16	3.90%	-34.80%	\$2.50
	Palladium ETF (PALL)	10/16/2014	USD	72.08	73.87	4.30%	2.50%	\$74.00
	Metals X (MLX.ax)	29/5/2014	AUD	0.98	0.86	2.60%	-12.10%	\$1.00
Uranium	Uranium Participation Corp (U.to)	10/20/2010	CAD	7.01	4.37	2.40%	-37.70%	\$6.00
	Western Uranium (WUC.cx)	7/5/2016	CAD	2.25	2.04	2.70%	-9.30%	\$4.80
	GoviEx (GXU.cx)	6/29/2015	CAD	0.08	0.17	4.50%	106.90%	\$0.50
Zinc/Lead Plays	Zinc ETF (Zinc.L)	1/15/2010	USD	7.04	8.38	2.50%	19.00%	€9.00
	Canadian Zinc (CZN.to)	12/9/2011	CAD	0.82	0.25	0.70%	-69.50%	\$0.70
	Ascendant Resources (ASND.v)	10/31/2016	CAD	0.48	0.84	3.80%	76.80%	\$1.70
	Nyrstar (NYS:BR)	9/28/2009	Euros	65.1	16.48	10.70%	-74.70%	€ 11.00
	Southern Silver Exploration (SSV.v)	8/25/2016	CAD	0.51	0.485	2.70%	-4.90%	\$0.94
Gold Producers	NewGold (NGD.to)	5/31/2013	CAD	7.05	3.83	2.50%	-45.70%	\$8.00
	Patagonia Gold (PGD.L)	10/2/2013	GBP	3.6	1.91	1.40%	-46.90%	£4.00
	Komet Resources (KMT.v)	11/25/2016	CAD	0.47	0.4	1.80%	-14.90%	\$1.28
	Para Resources (PBR.v)	2/17/2017	CAD	0.23	0.22	2.40%	-4.30%	\$0.58
	Westgold (WGX.ax)	12/6/2016	AUD	2.01	2.45	4.90%	21.90%	\$2.40
	Eldorado Gold (EGO)	6/21/2012	USD	9.12	4.06	3.60%	-55.50%	\$7.00
	Teranga Gold (TGZ.to)	6/21/2012	CAD	1.57	0.87	2.30%	-44.60%	\$1.50
Copper Producer	Coro Mining (COP.to)	2/23/2015	CAD	0.03	0.17	3.80%	466.70%	\$0.30
	Royal Nickel (RXN.to)	11/17/2016	CAD	0.33	0.34	2.30%	3.00%	\$0.60
Processor	IBC Advanced Alloys (IB.v)	4/29/2016	CAD	0.3	0.44	1.00%	46.70%	\$1.40
Driller	Cabo Drilling (CBE.v)	9/28/2016	CAD	0.025	0.02	0.90%	-20.00%	\$0.08
Tungsten Producer	Almonty Industries (AII.v)	7/31/2015	CAD	0.36	0.29	3.20%	-20.00%	\$1.00
Copper Explorer	Asiamet Resources (ARS.v)	4/28/2016	CAD	0.05	0.08	2.70%	60.00%	\$0.24
Nickel Explorer	Sama Resources (SME.V)	23/2/2015	CAD	0.16	0.14	2.50%	-12.50%	\$0.30
Lithium	Neometals (NMT.ax)	7/31/2014	AUD	0.04	0.35	3.90%	845.90%	\$0.60
	Galaxy Mining (GXY.ax)	6/28/2016	AUD	0.35	0.5	2.40%	44.60%	\$0.70
Scandium Explorer	Scandium International (SCY.to)	8/23/2016	CAD	0.14	0.31	4.10%	121.40%	\$1.00
Graphite Producer	Elcora Resources (ERA.v)	29/5/2014	CAD	0.2	0.33	3.70%	65.00%	\$0.64
Graphite Developer	Talga Resources (TLG.ax)	8/25/2016	AUD	0.27	0.38	4.30%	43.40%	\$0.42
REE Explorer	Northern Minerals (NTU.ax)	6/9/2011	AUD	0.73	0.13	0.40%	-82.20%	\$0.28
NET CASH					938,572			
Short Equities								
Shorts	Bacanora (BCN.v)	12/4/2015	CAD	1.53	1.42	56.30%	7.20%	\$0.80
	Galane Gold (GG.v)	4/28/2016	CAD	0.06	0.06	43.70%	0.00%	\$0.03

Current Cash Position	938,572
Current Liability on Shorts Not Covered	113,684
Net Cash	1,052,256
Current Value of Bonds	0
Current Value of Long Equities	3,397,206
TOTAL VALUE OF PORTFOLIO	4,449,462

Important disclosures

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